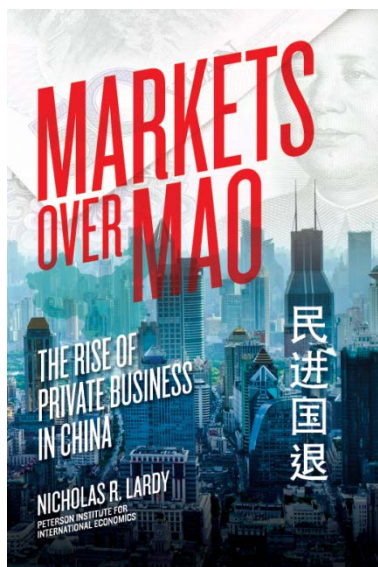


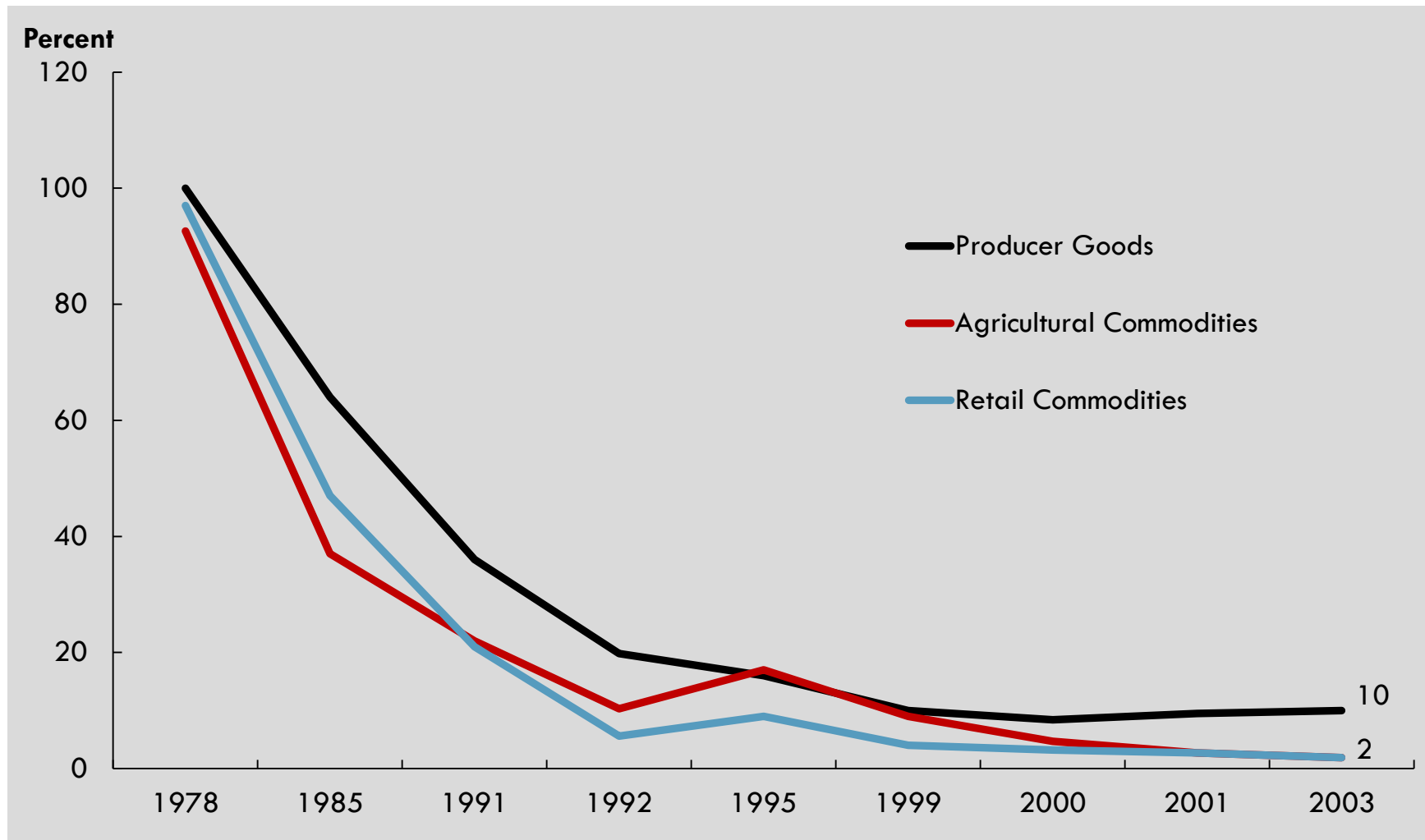
Markets over Mao: The Rise of Private Business in China



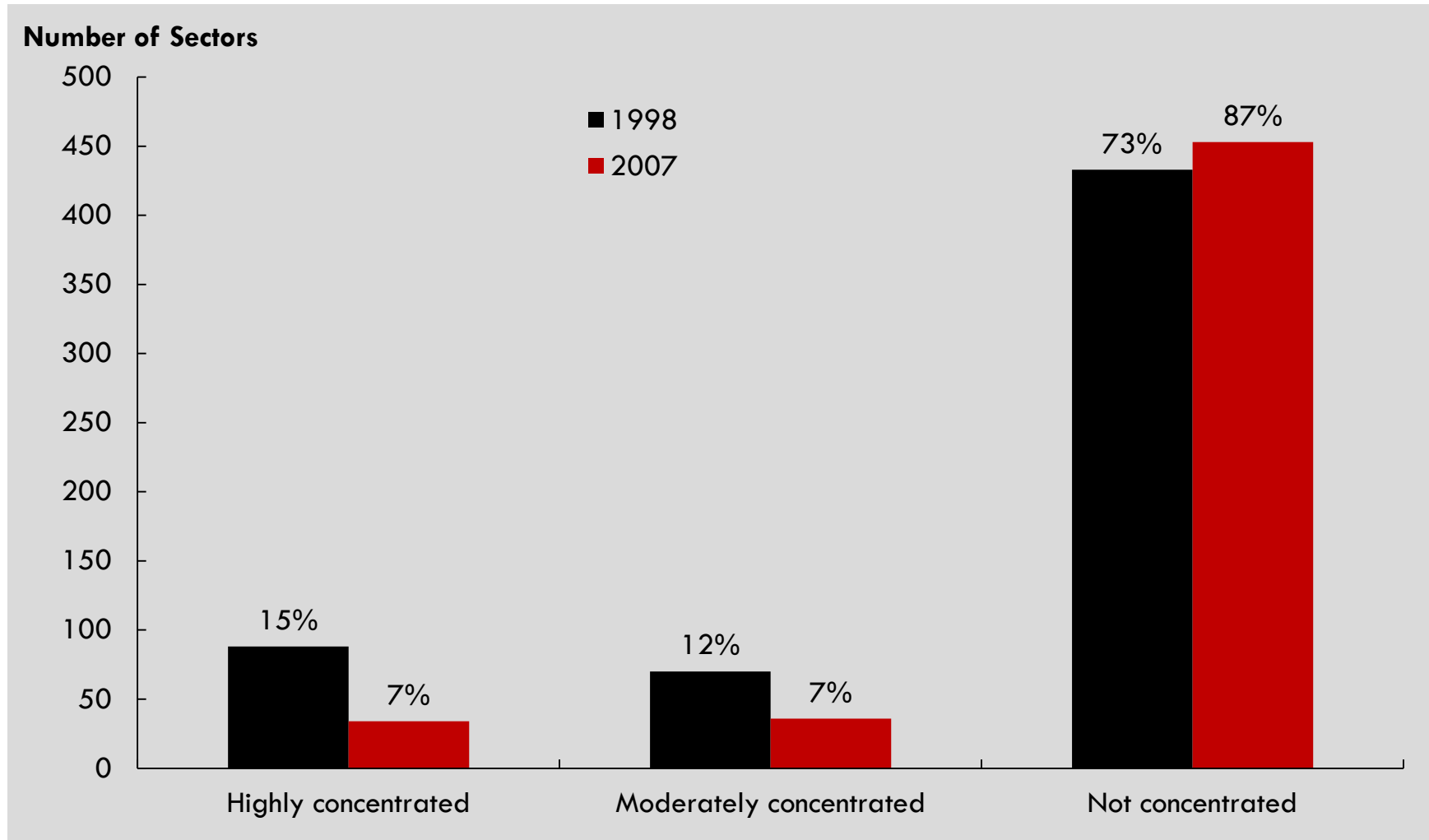
The Peterson Institute for International Economics
Washington D.C.
September 10, 2014

Nicholas R. Lardy
Anthony M. Solomon Senior Fellow
Peterson Institute for International Economics

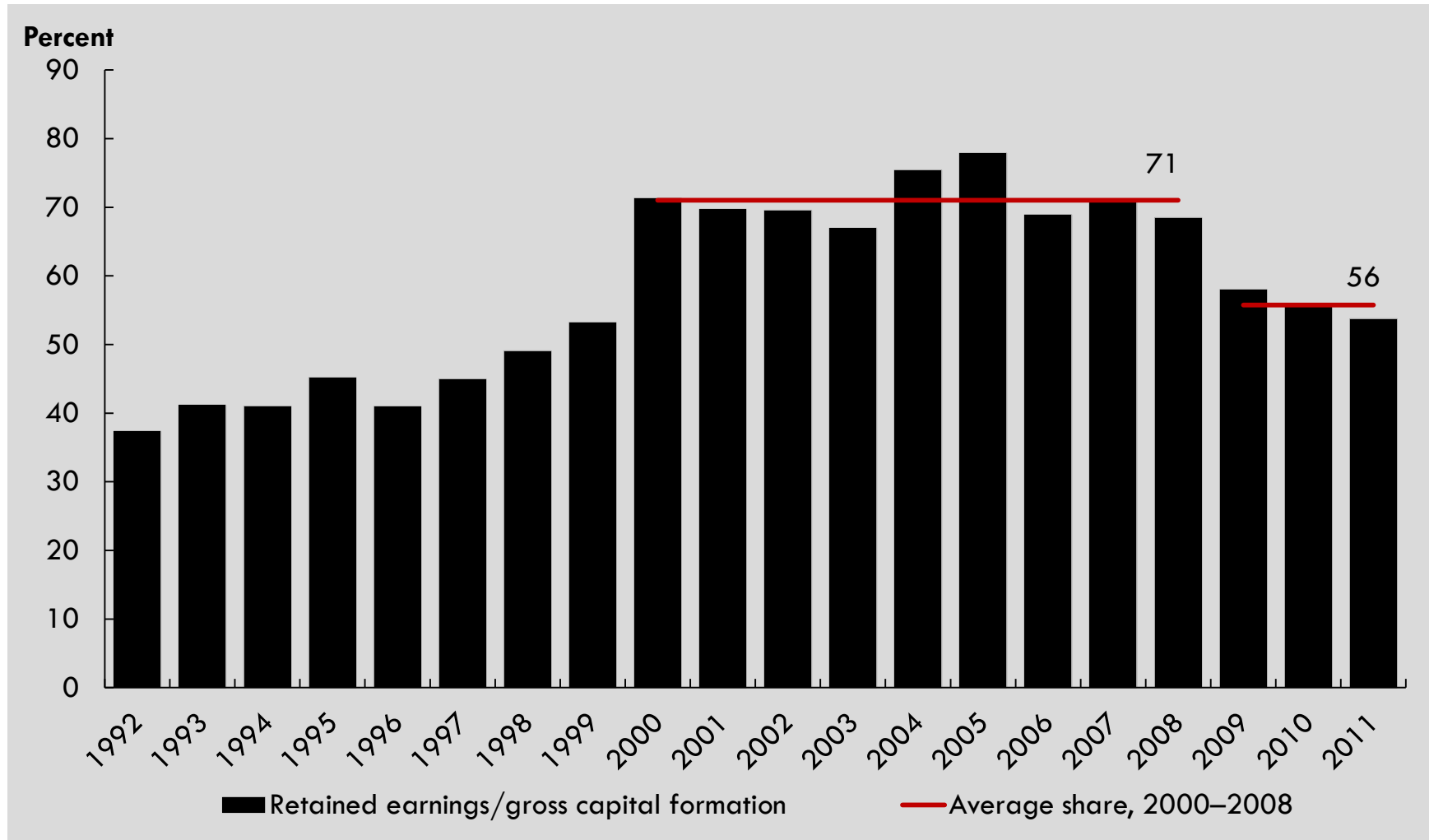
Share of transactions at prices fixed by the state by type of good, 1978 - 2003



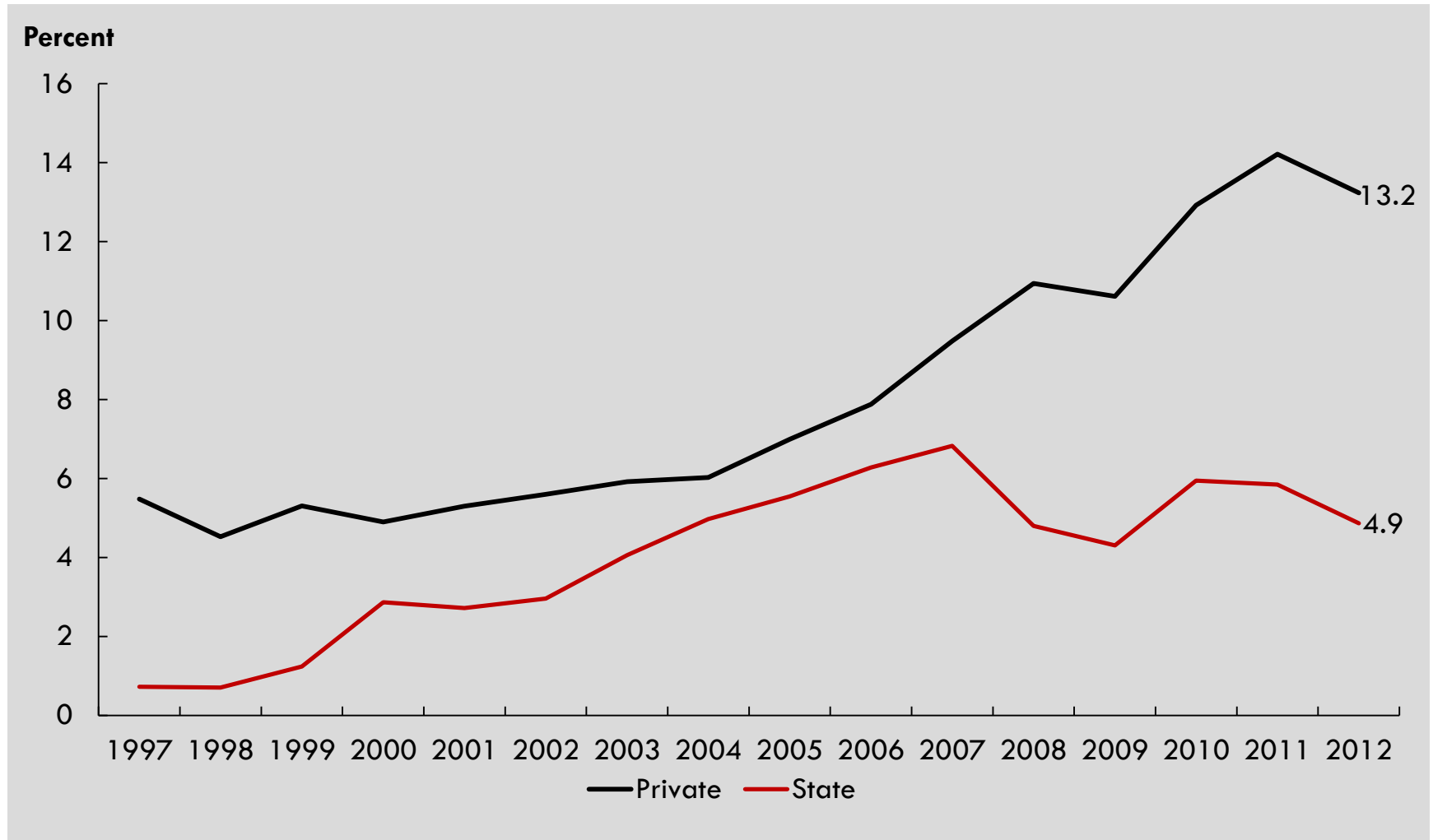
Industrial sectors in selected concentration ranges, 1998 and 2007



Retained earnings of non-financial corporations as a share of corporate investment, 1992-2011

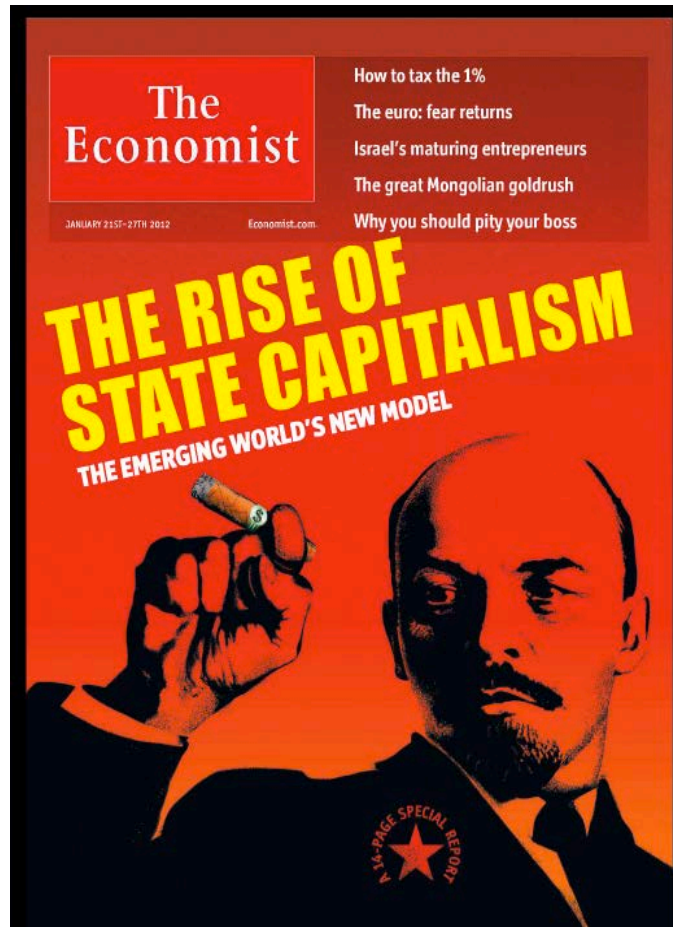


Return on assets in industry, 1997 - 2012



Misconceptions of state rule in China:

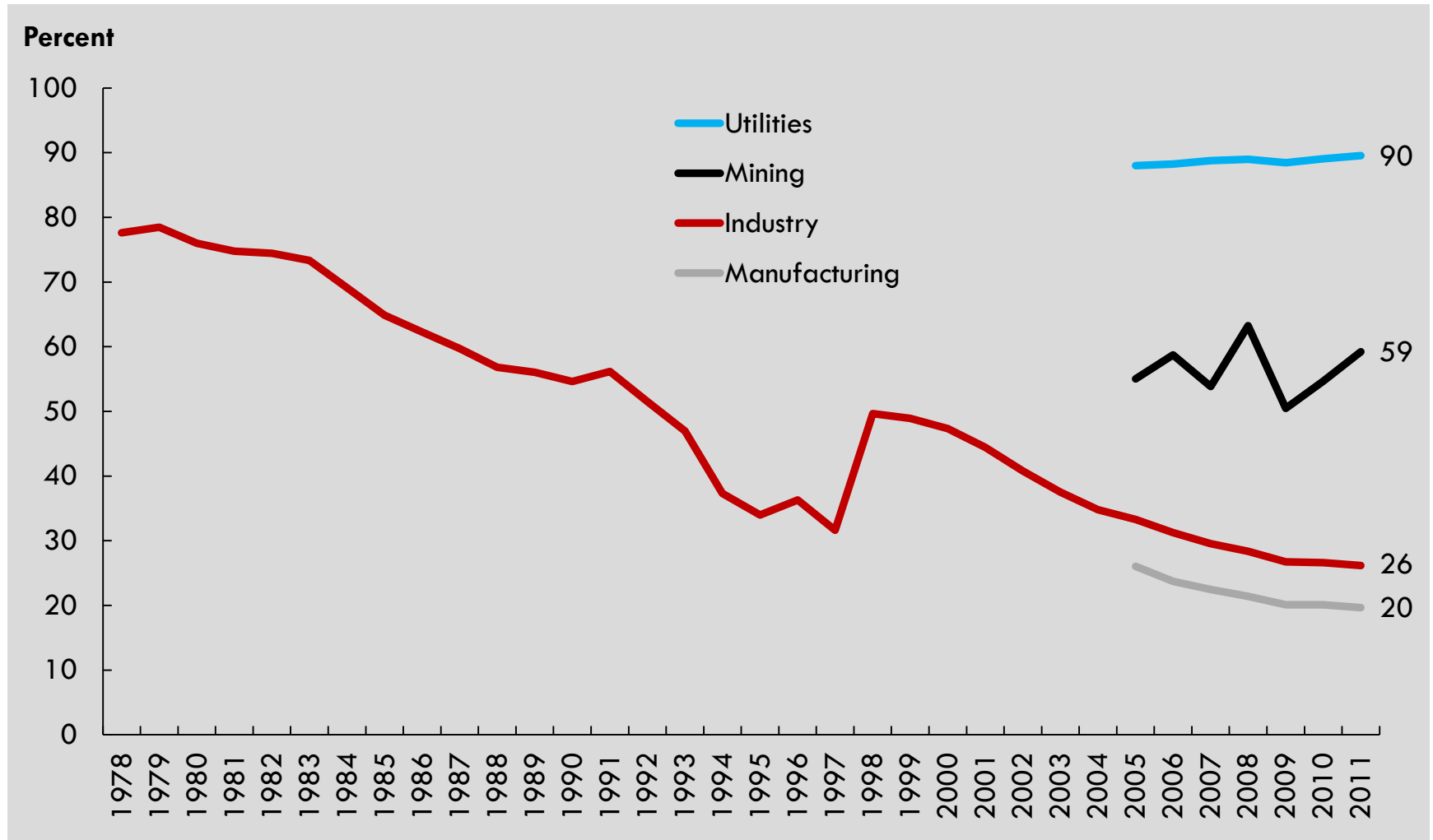
#1 The economy is dominated by state firms



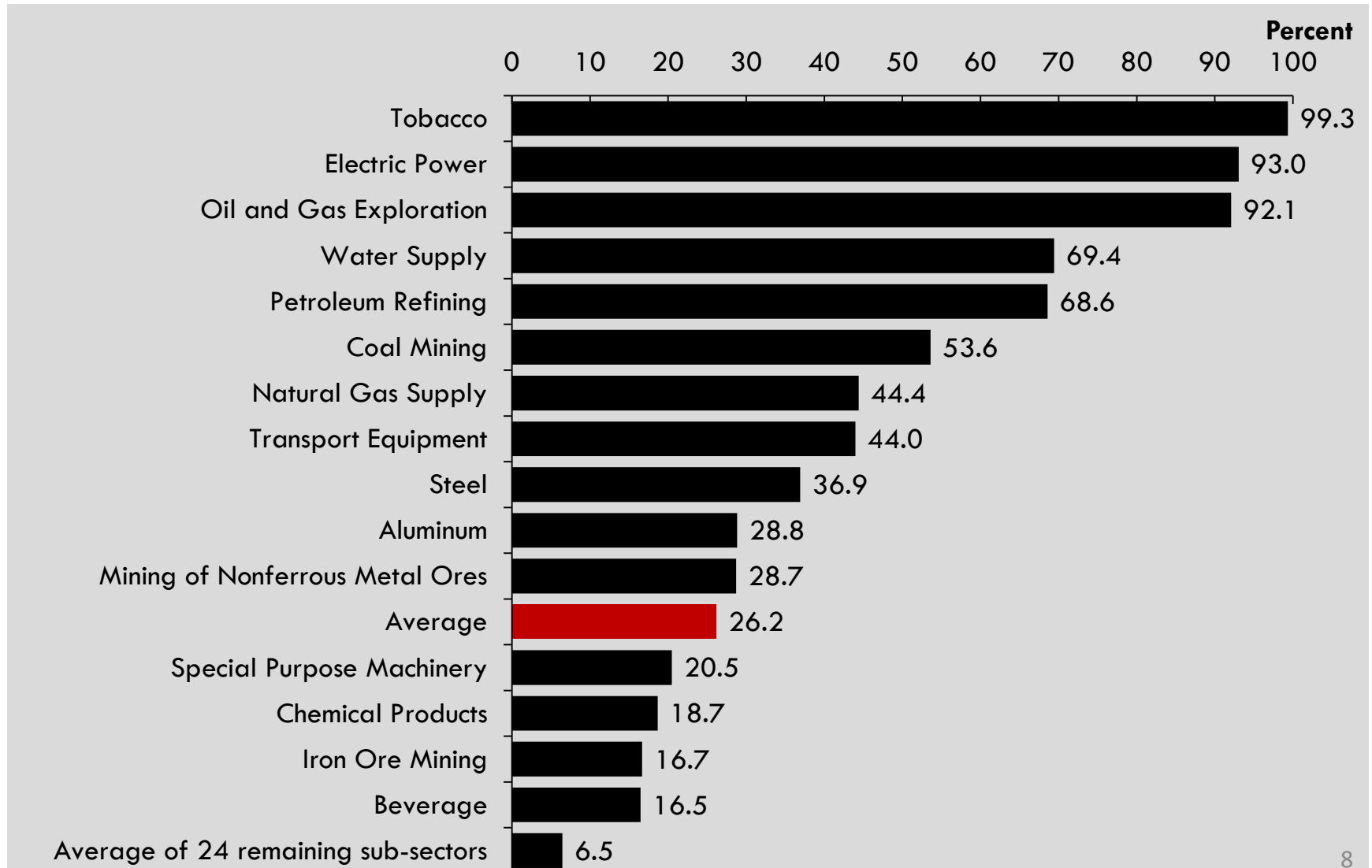
China is “commanding heights” state capitalism, with the Chinese government picking the winning industries of tomorrow and developing state-owned national champions

- U.S.-China Economic and Security Review Commission, 2011.

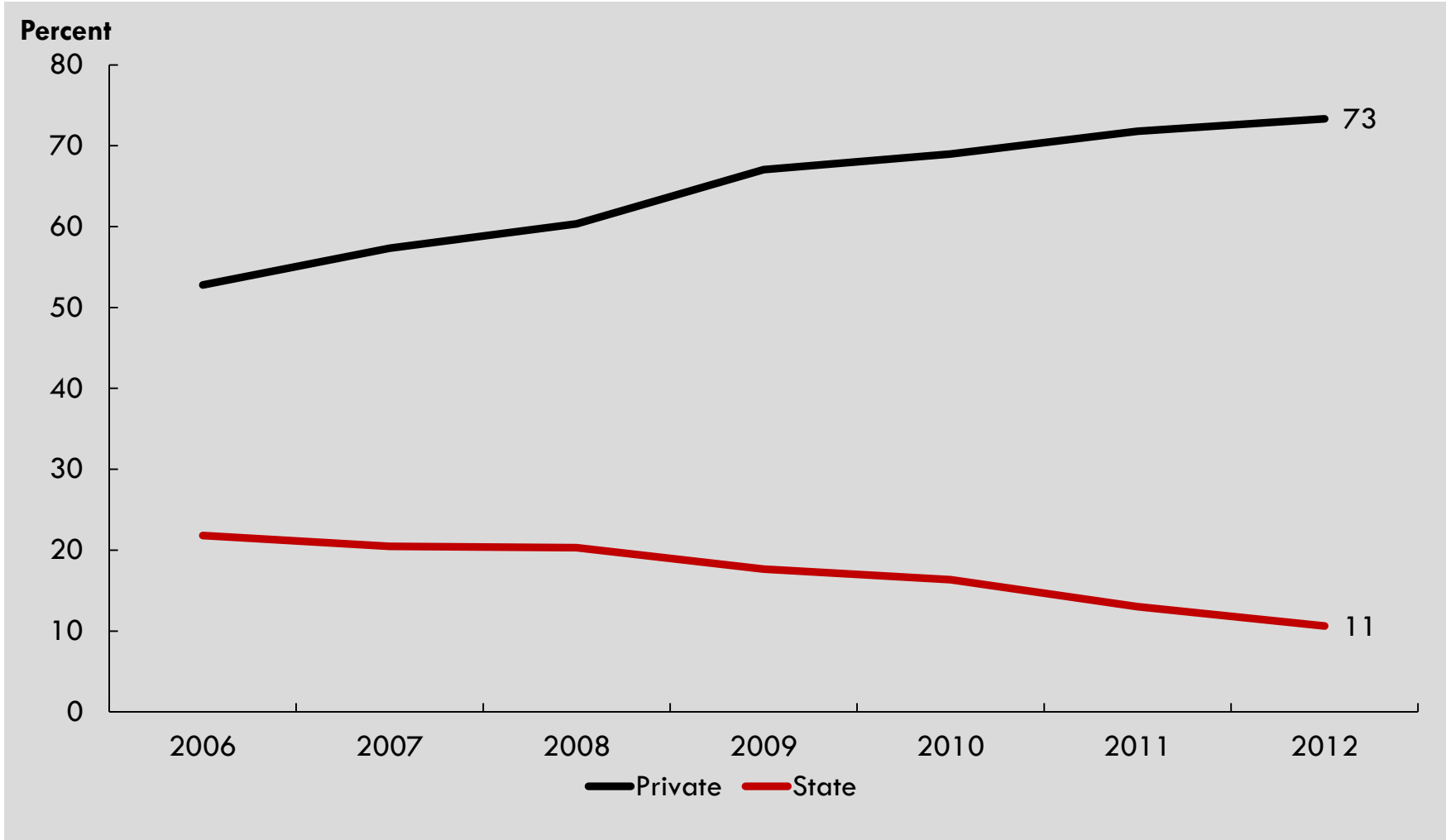
State share of industrial output, 1978 - 2011



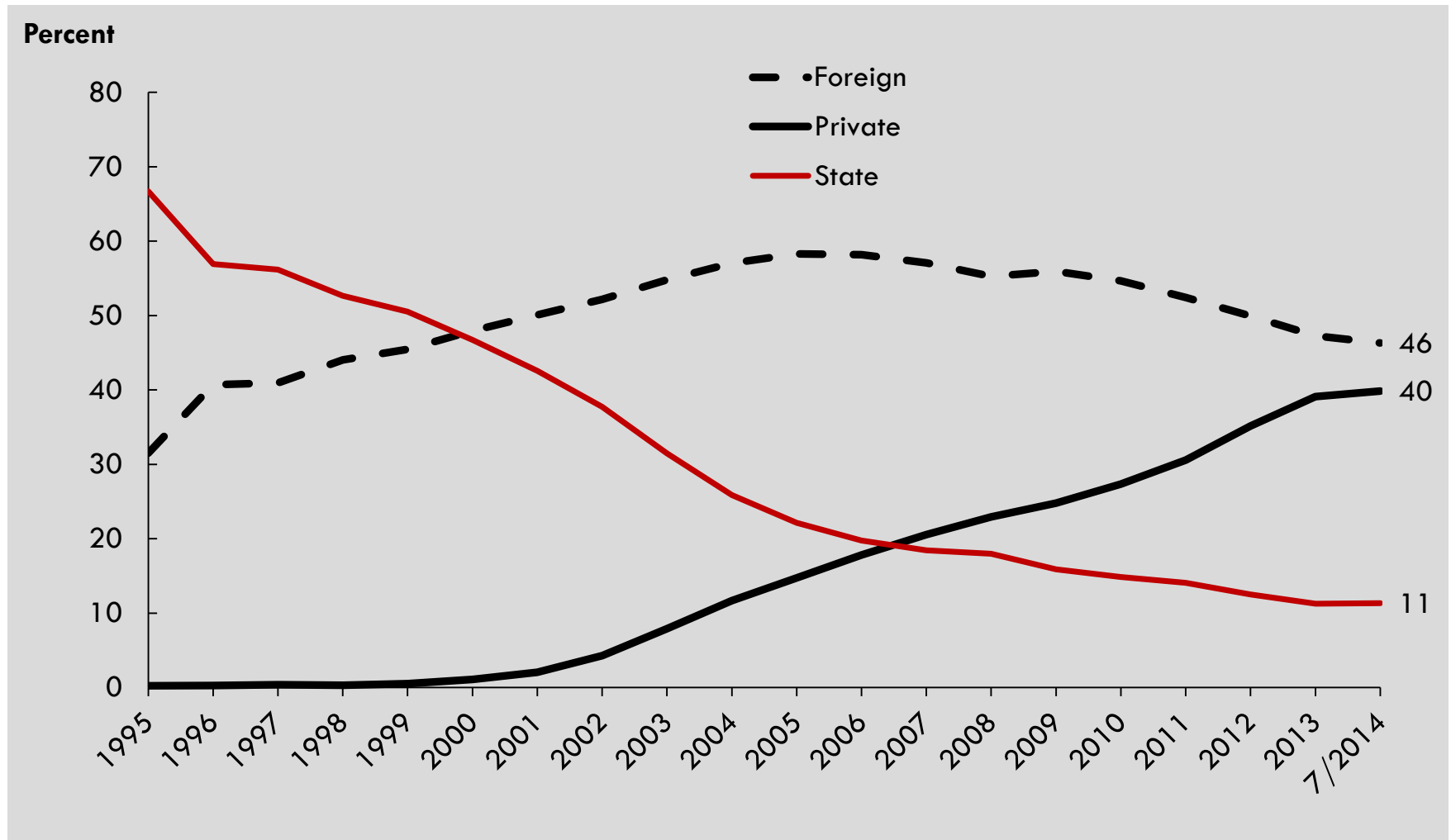
Share of state industrial output by sector, 2011



Share of fixed investment in manufacturing, 2006 - 2012



Share of exports by ownership, 1995 – 2014 Ytd.



Misconceptions of state rule in China:

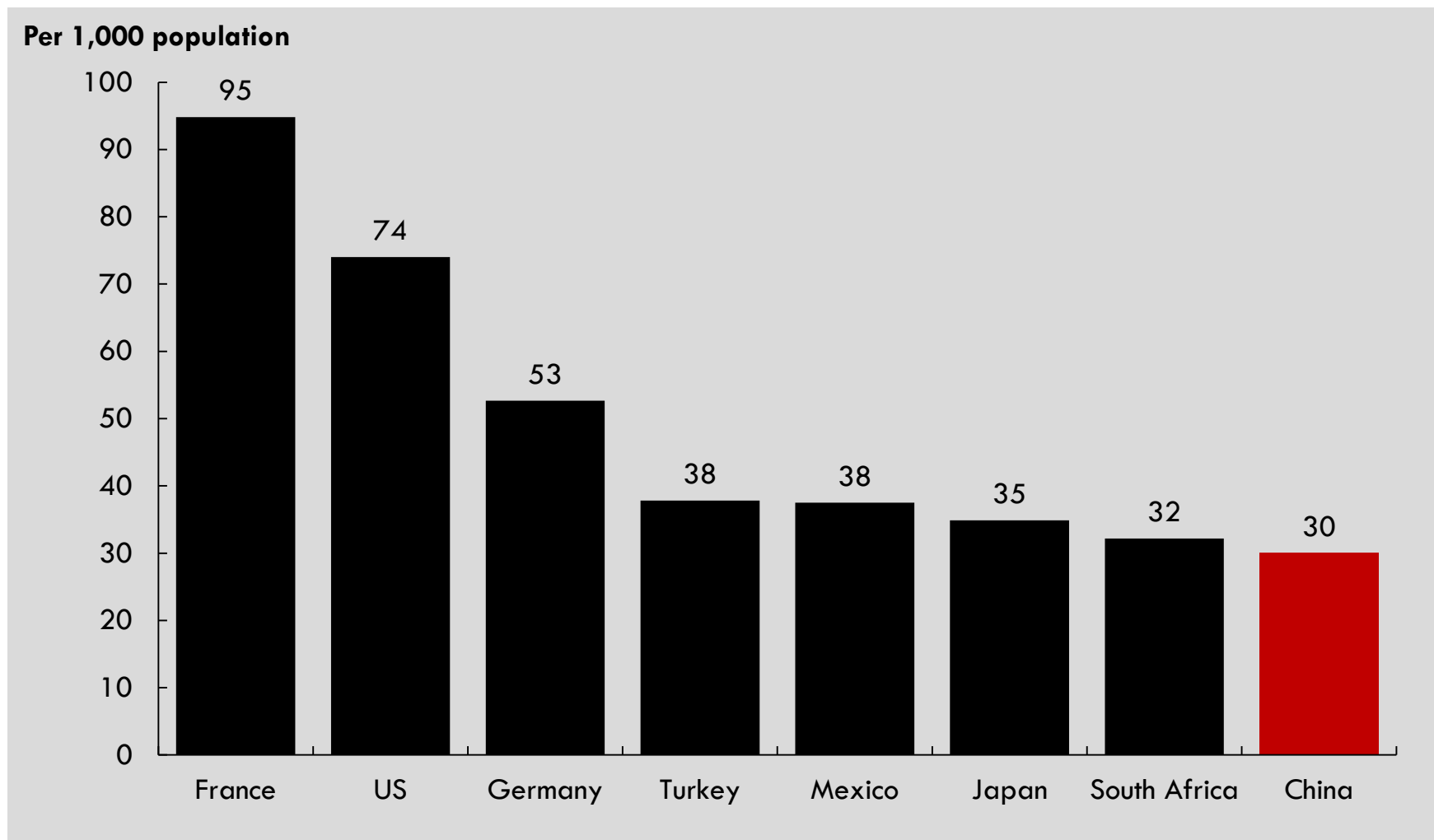
#2 The Chinese Government is Large



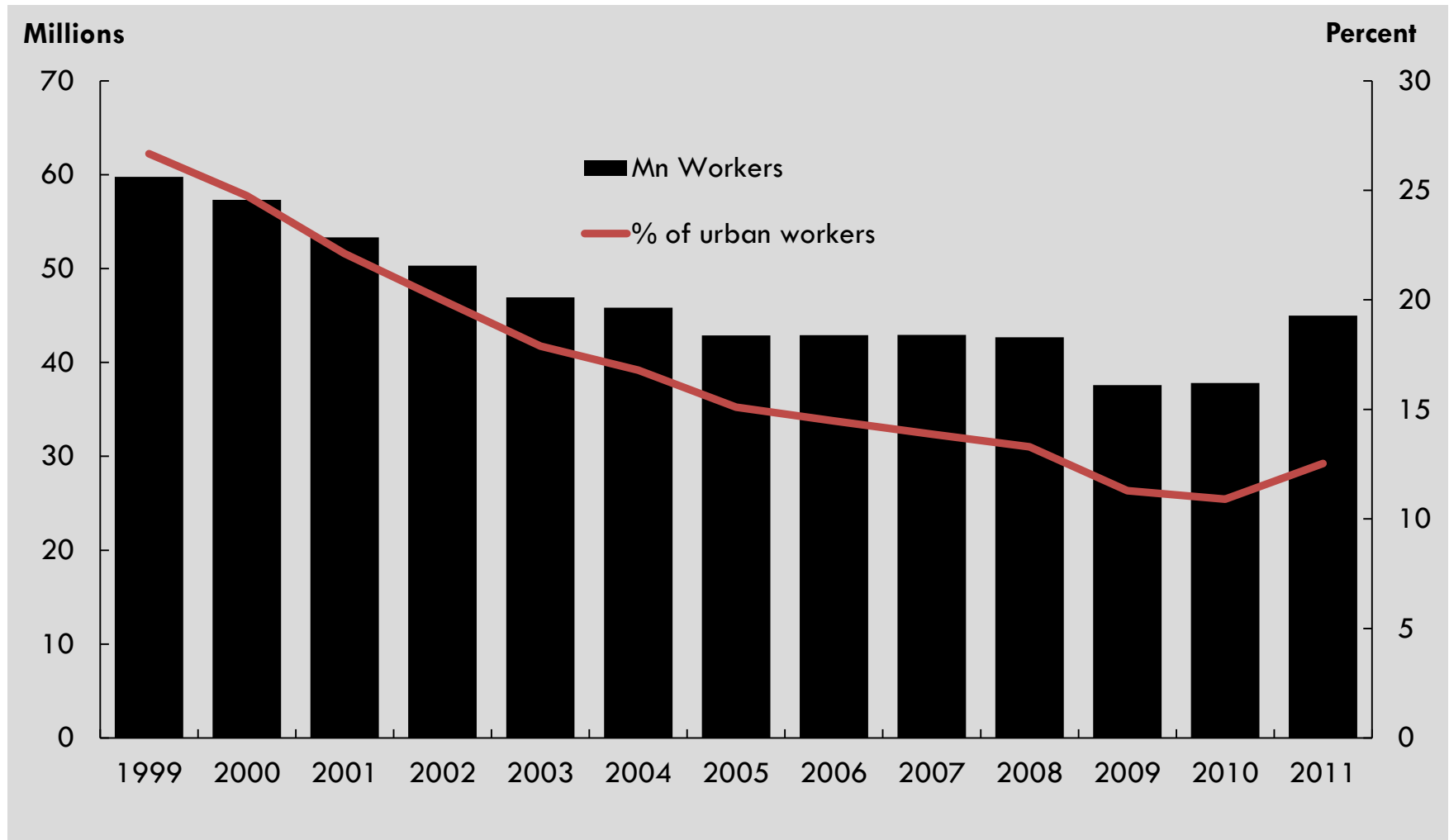
“China is one of the world’s most powerful bureaucracies in terms of employment, income, ownership of the means of production, and regulatory powers.”

- Stephen Green, Standard Chartered, 2013.

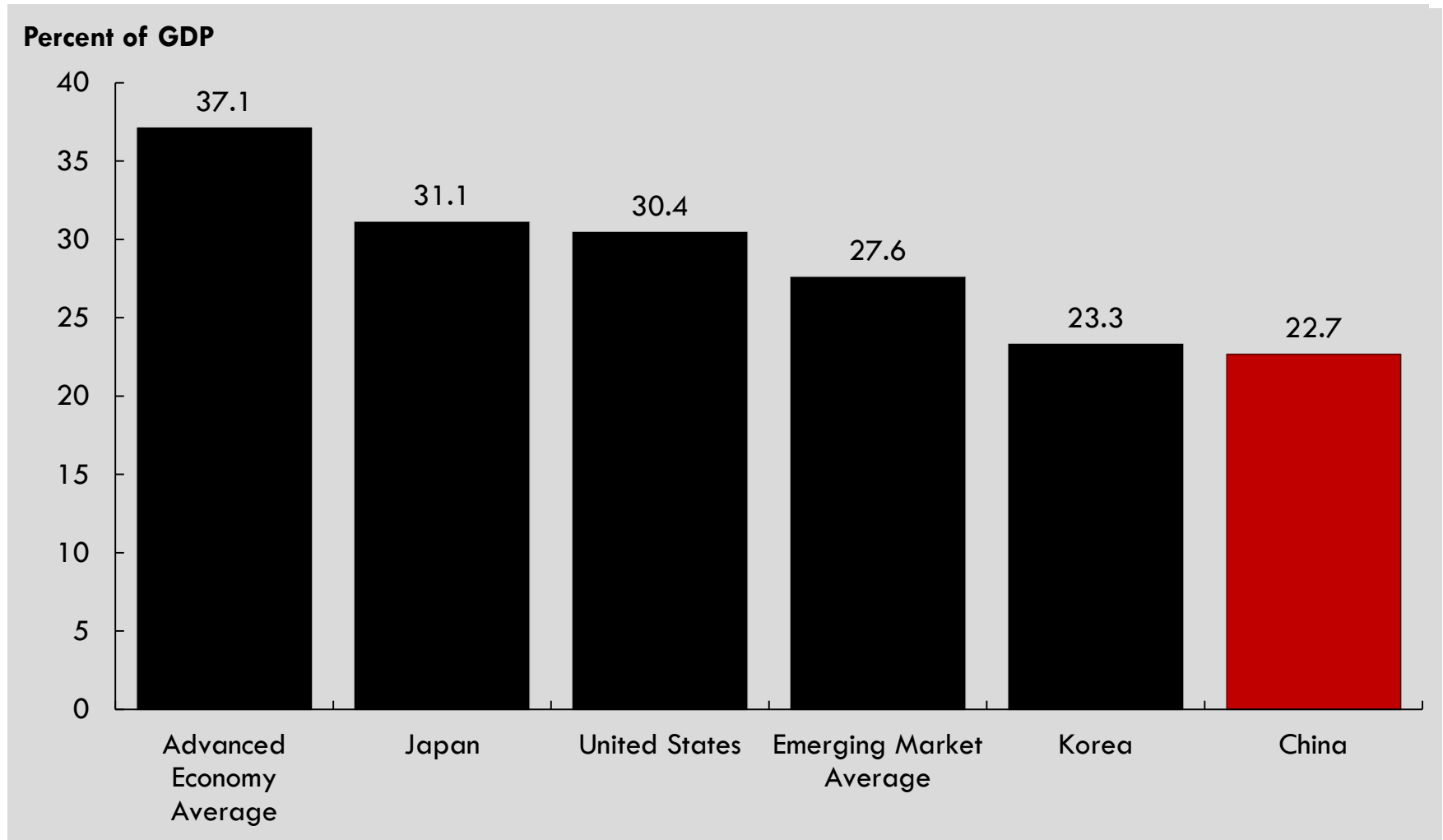
Government employment, 2008



Public enterprise employment, 1999 - 2011



General government revenues, 2012



Misconceptions of the state and the economy

#3 SOEs extract profits at the expense of private firms

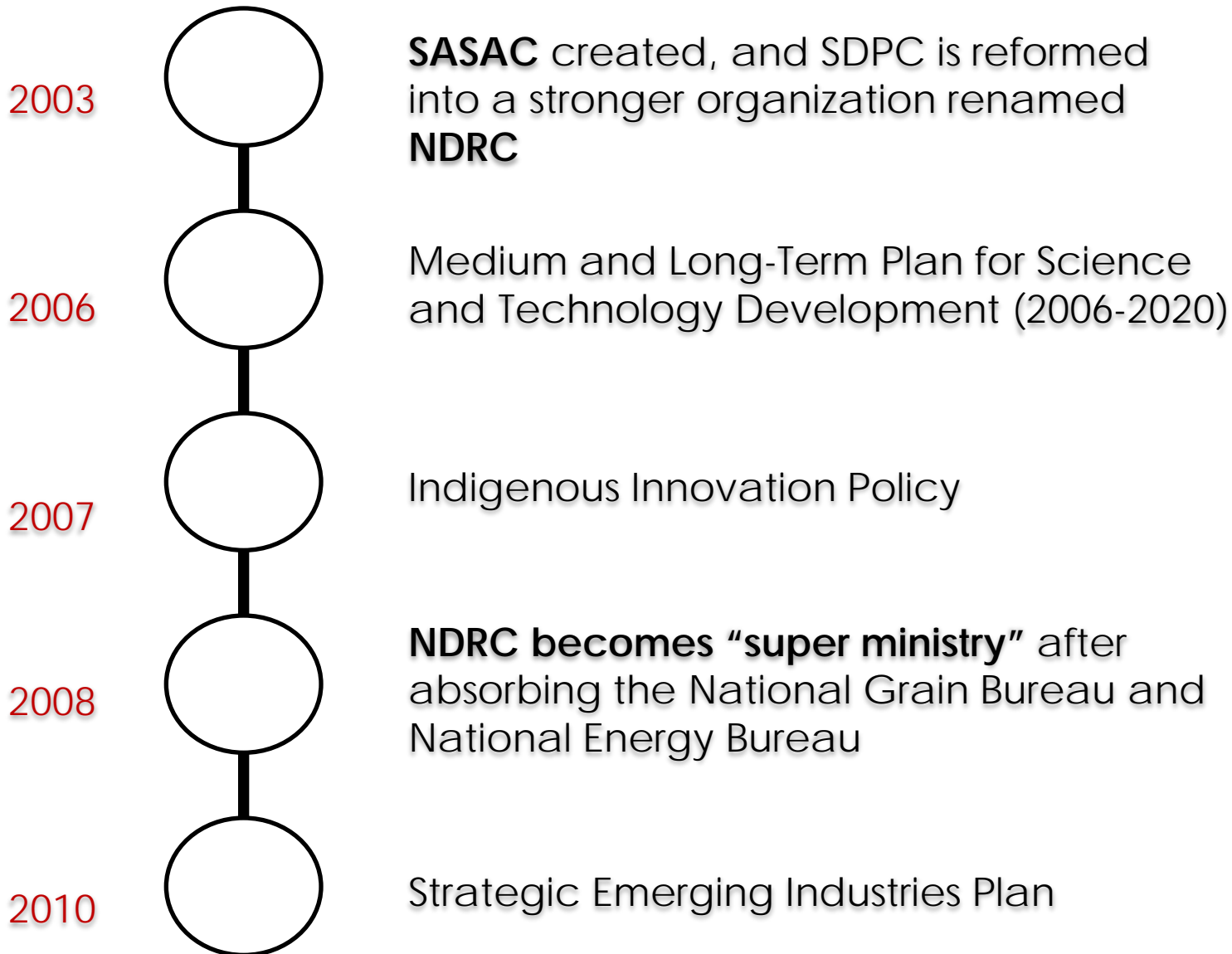
“The profits of the 117 central SOEs are as astronomical as one would expect given the monopolies and protected markets they enjoy.”

- James McGregor, 2012

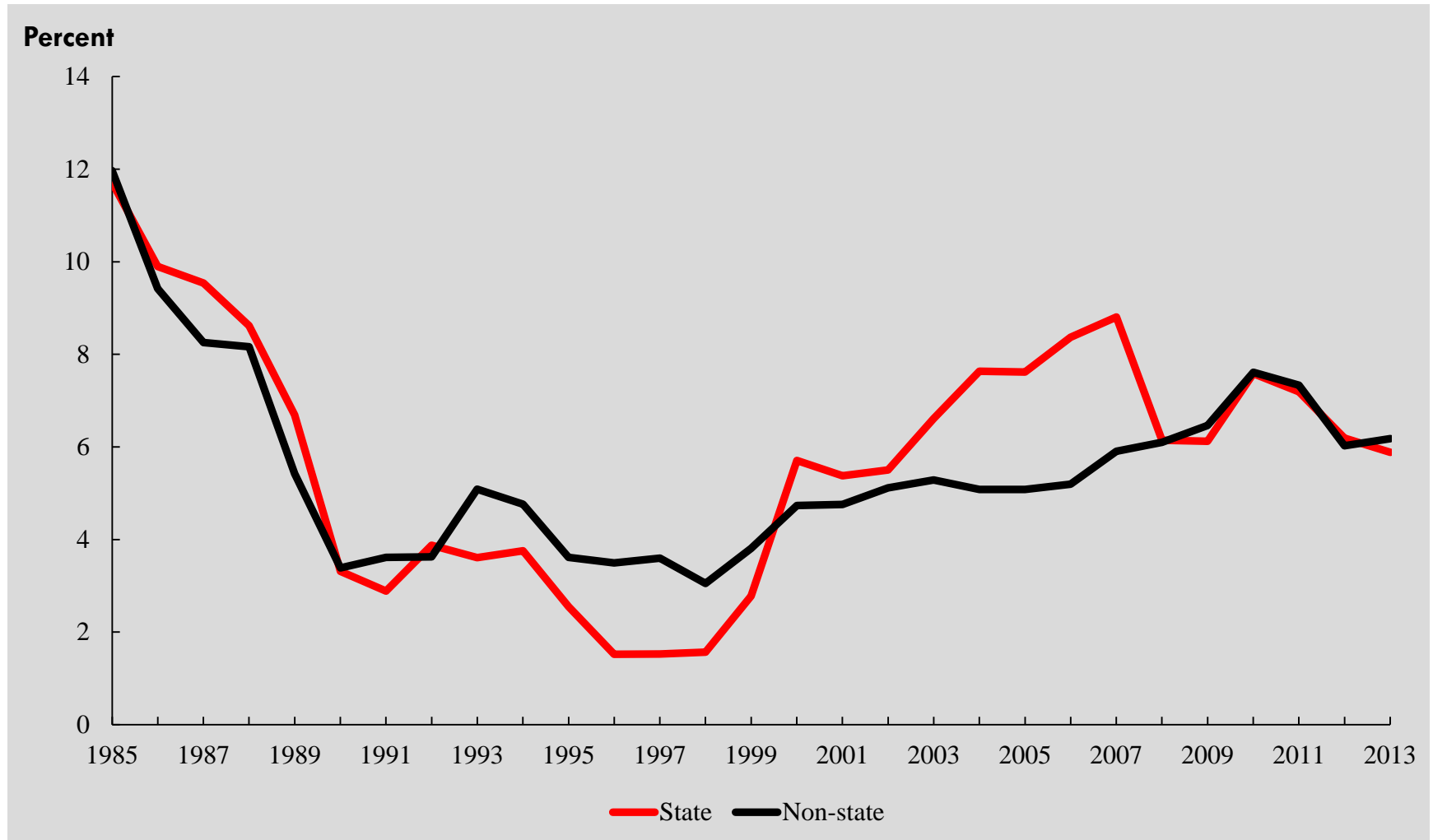
“though fewer in number, today’s SOEs are more powerful than ever.”

- The Economist,
October 6, 2012.

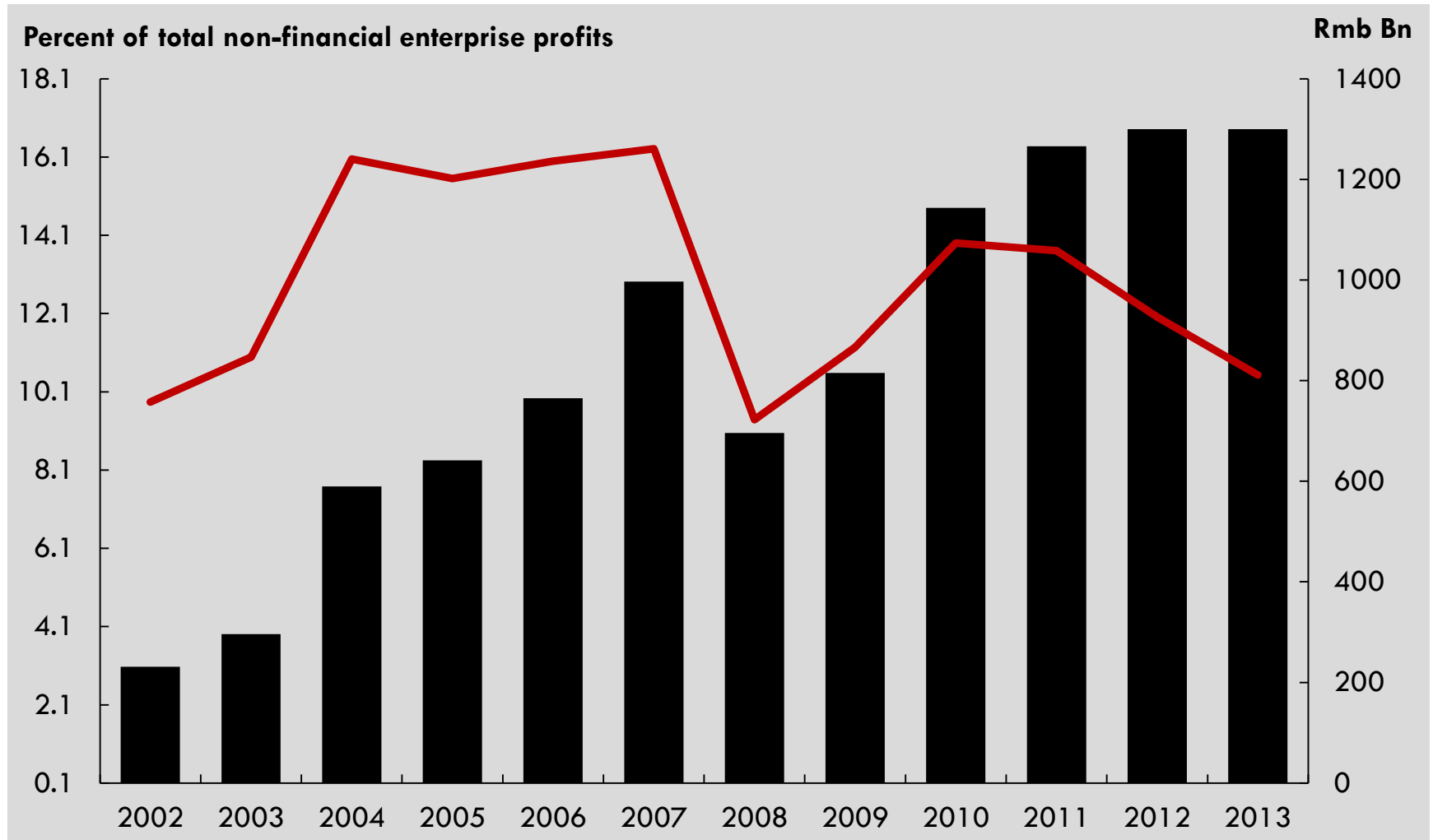
Timeline of State Industrial Policies



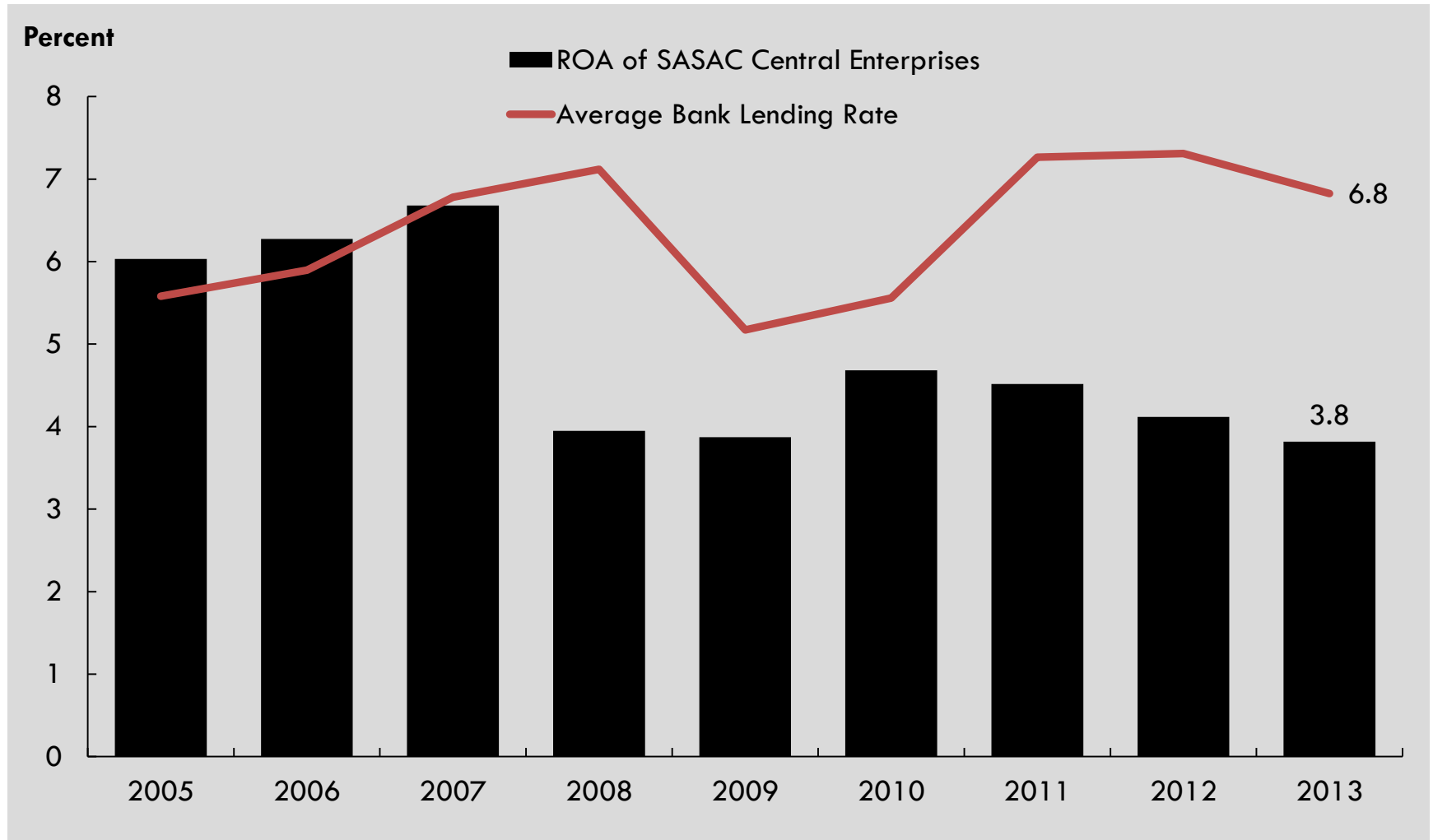
Profit margins in industrial sector by ownership, 1985 - 2013



Profits of SASAC central enterprises, 2002 - 2013



Return on assets of SASAC firms, 2005 - 2013



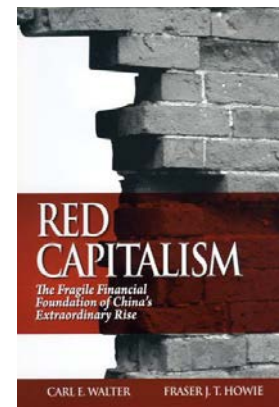
Misconceptions of state rule in China: #4 private firms have little access to credit

“the more vibrant segments of the private sector ...are typically starved of cash. Meanwhile, the larger state-owned enterprises enjoy easy access to loans...”

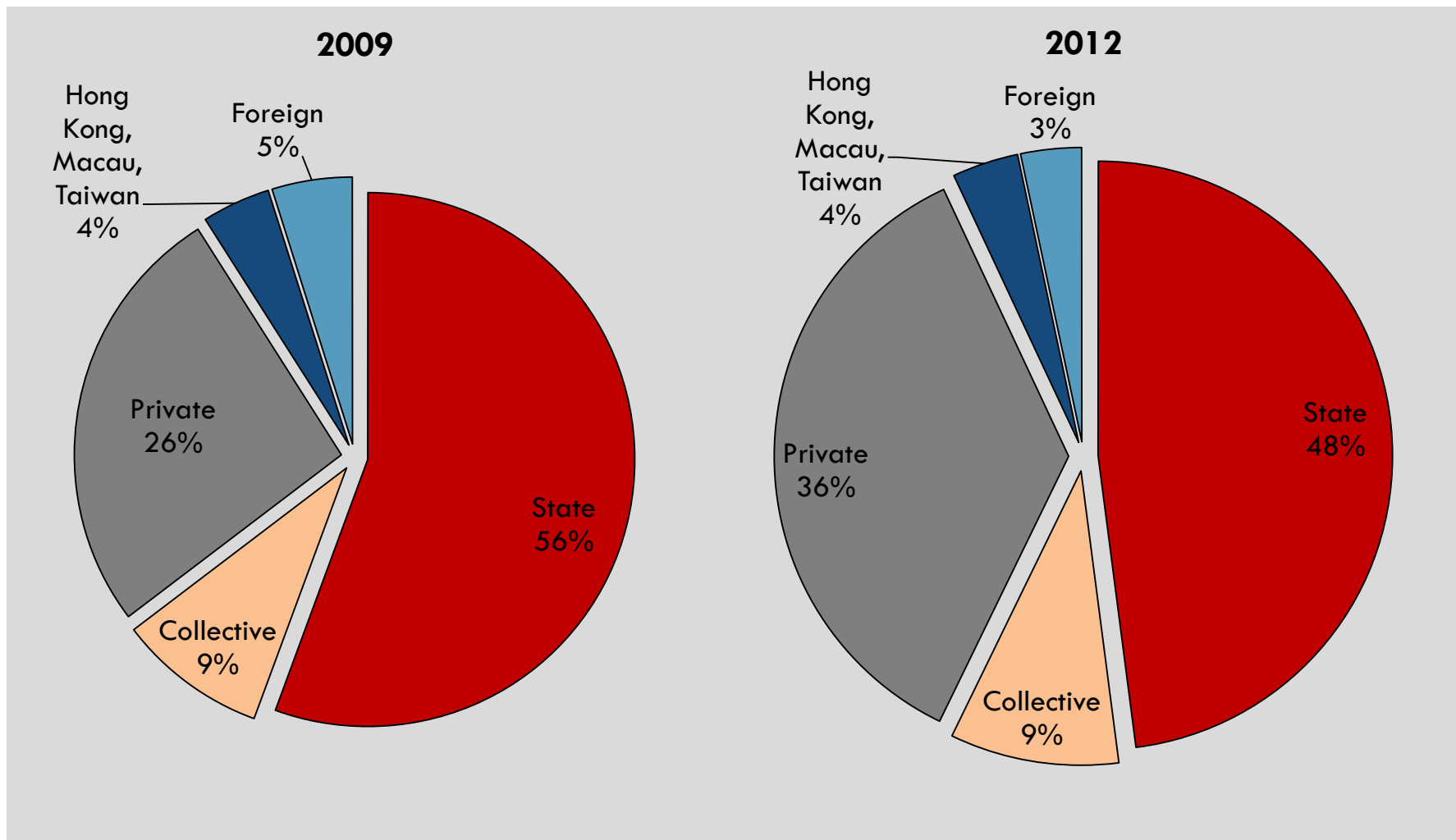
- Financial Times, 2014.

Chinese banks overwhelmingly lend to SOEs and always have.

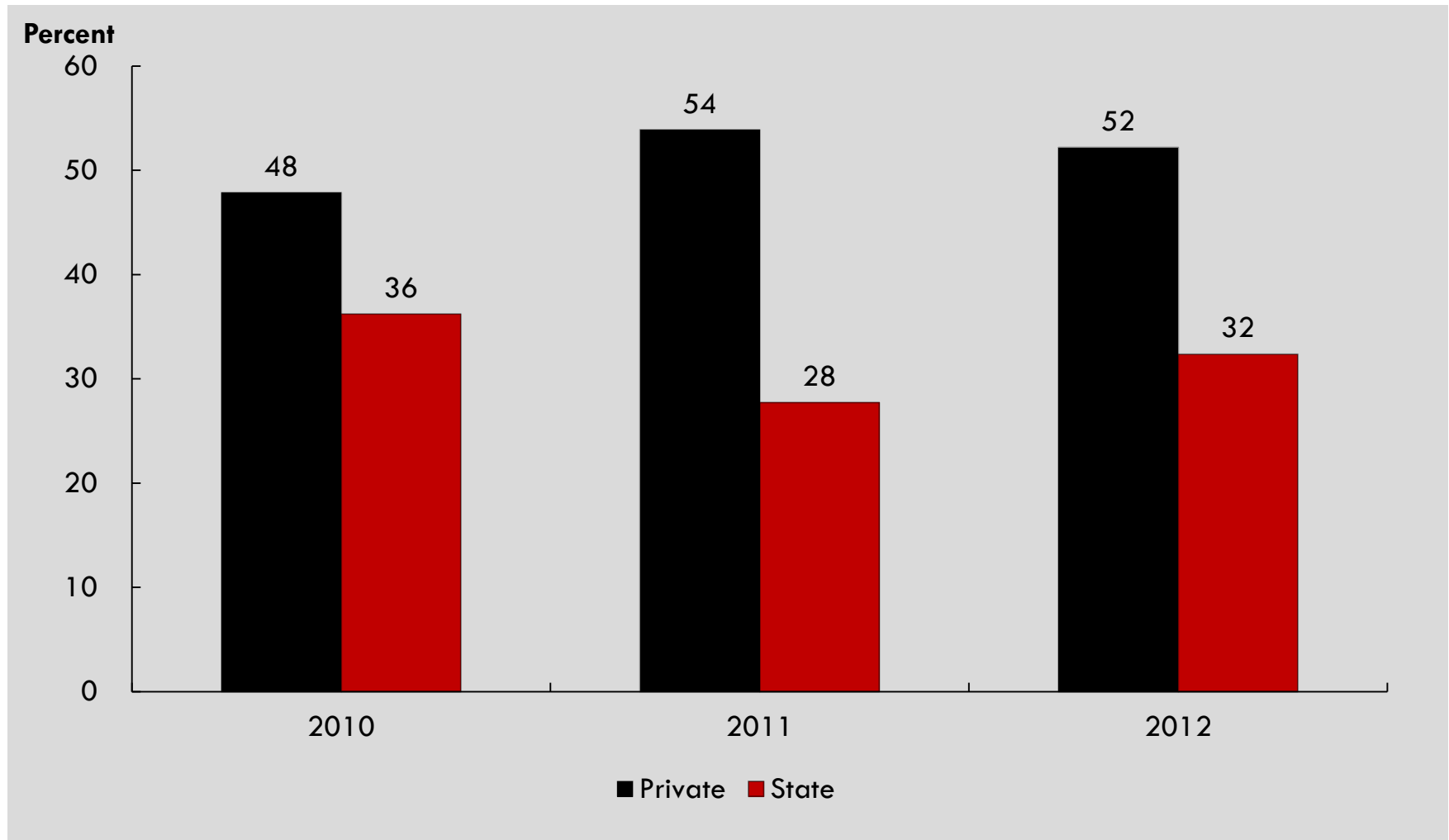
- Carl Walter and Fraser Howie, 2010



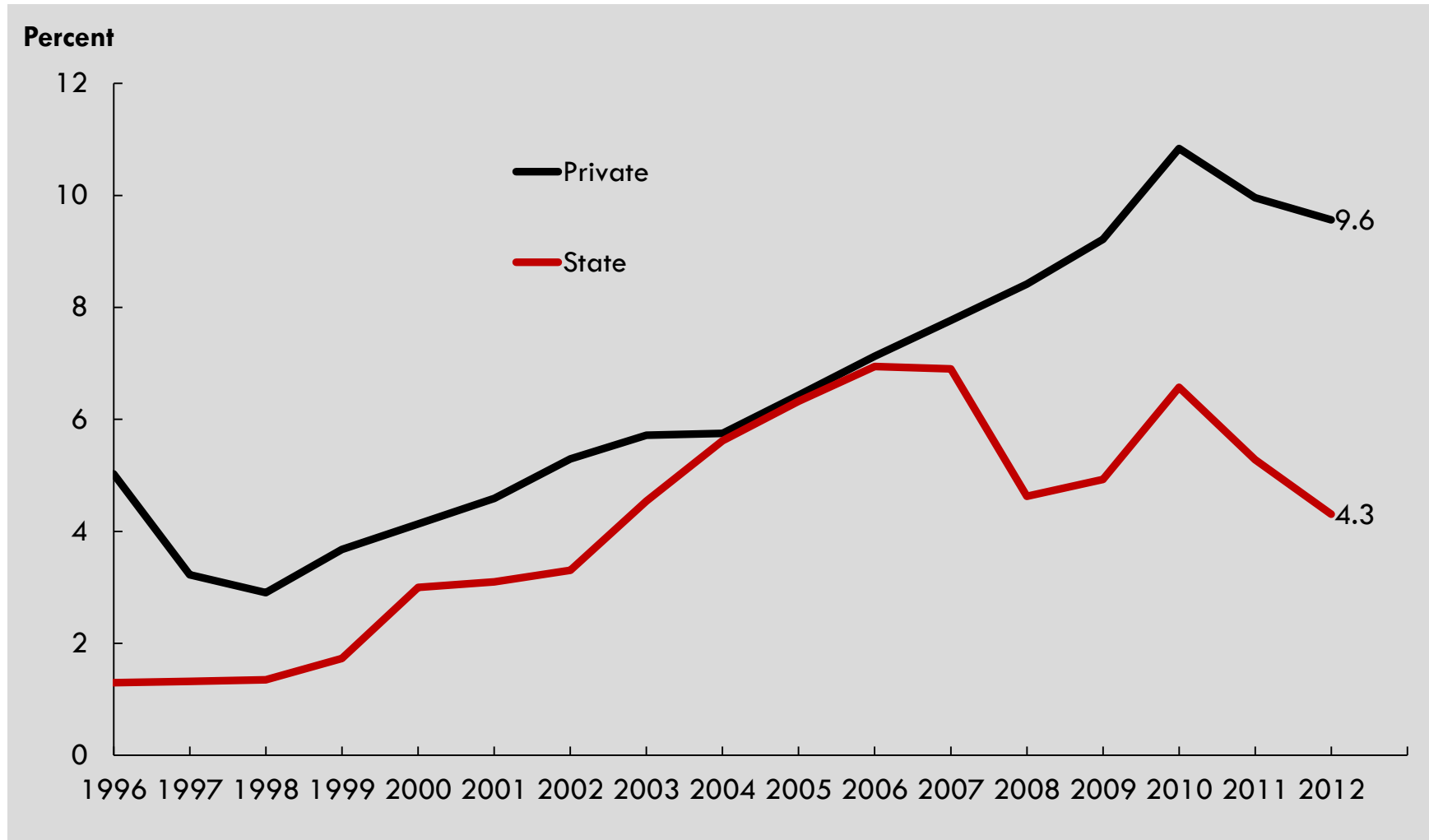
Stock of enterprise loans by ownership, 2009 and 2012



Flow of bank loans to enterprises by ownership, 2010 - 2012

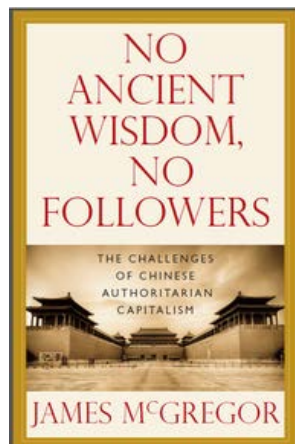


Interest coverage ratio, 1996 - 2012



Misconceptions of the state and the economy

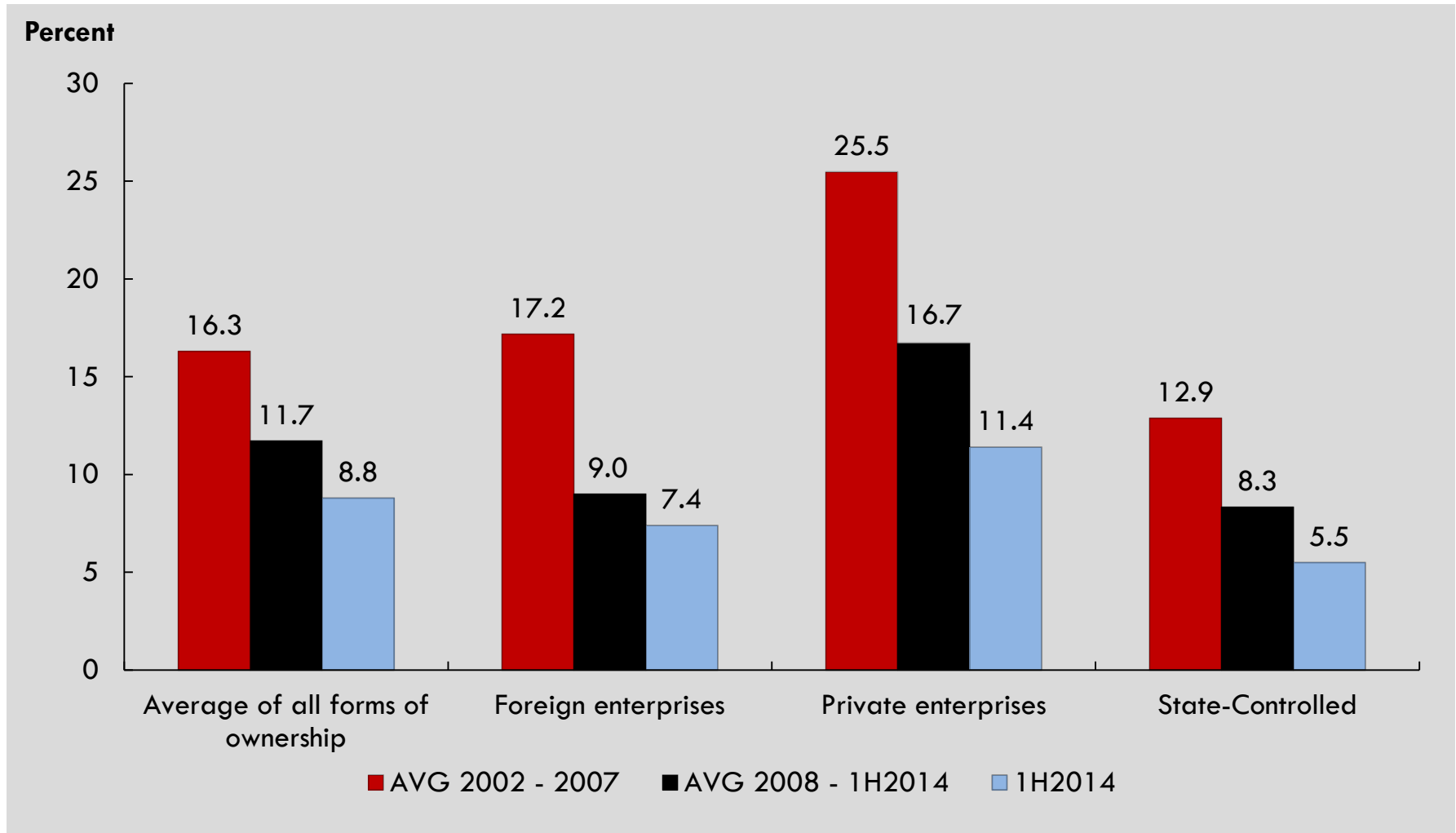
#5 State resurgence in the Hu/Wen era



SOEs started as Soviet-inspired drivers of China's industrialization under Mao, then faded into the background during Deng Xiaoping's reforms. The SOEs returned to prominence under the Hu Jintao and Wen Jiabao administration as anointed "national champions."

- James McGregor, 2012

Growth in value added industrial output, 2002 - 1H2014



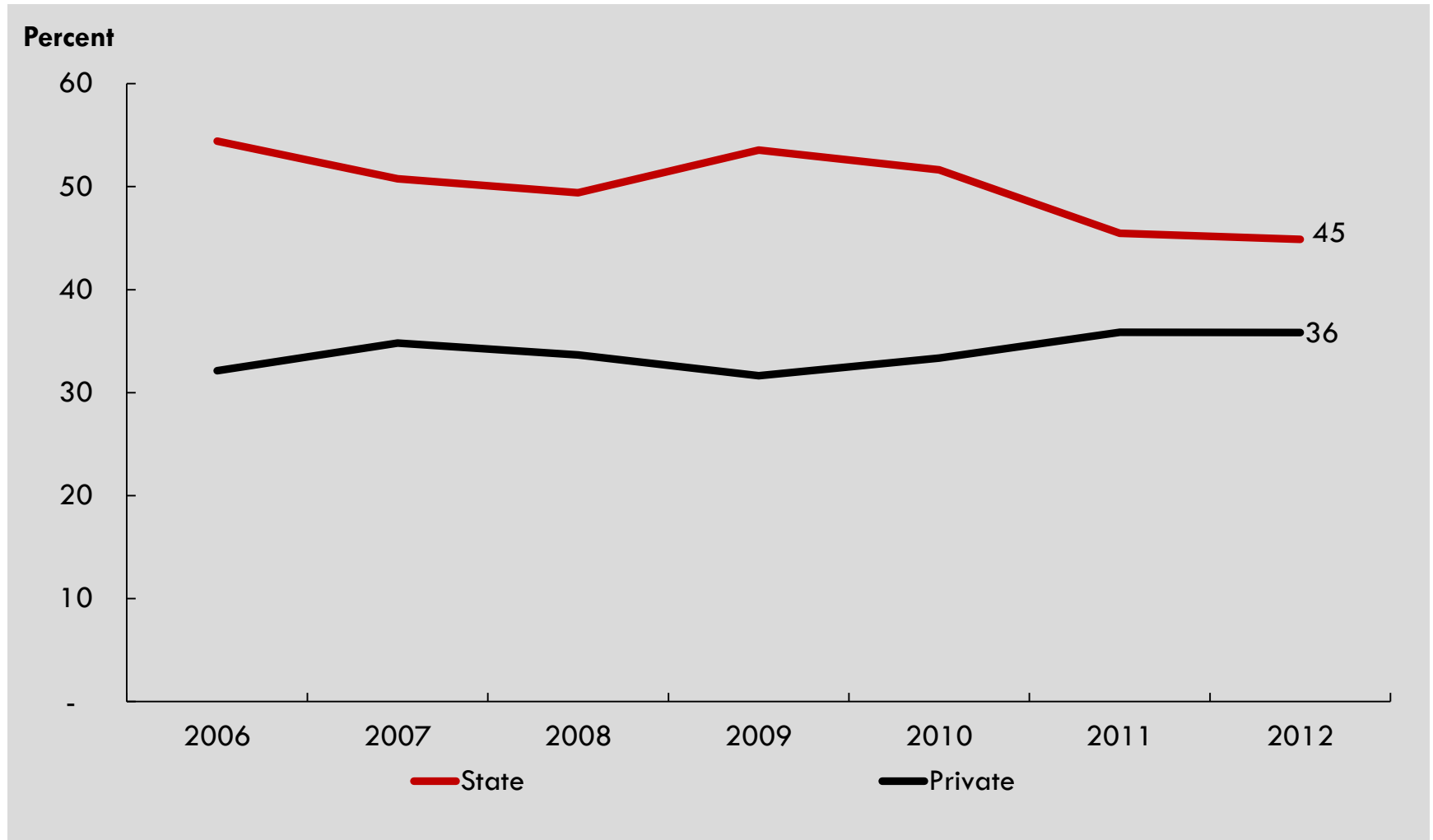
Reforms to enhance the private economy: The Third Plenum Agenda



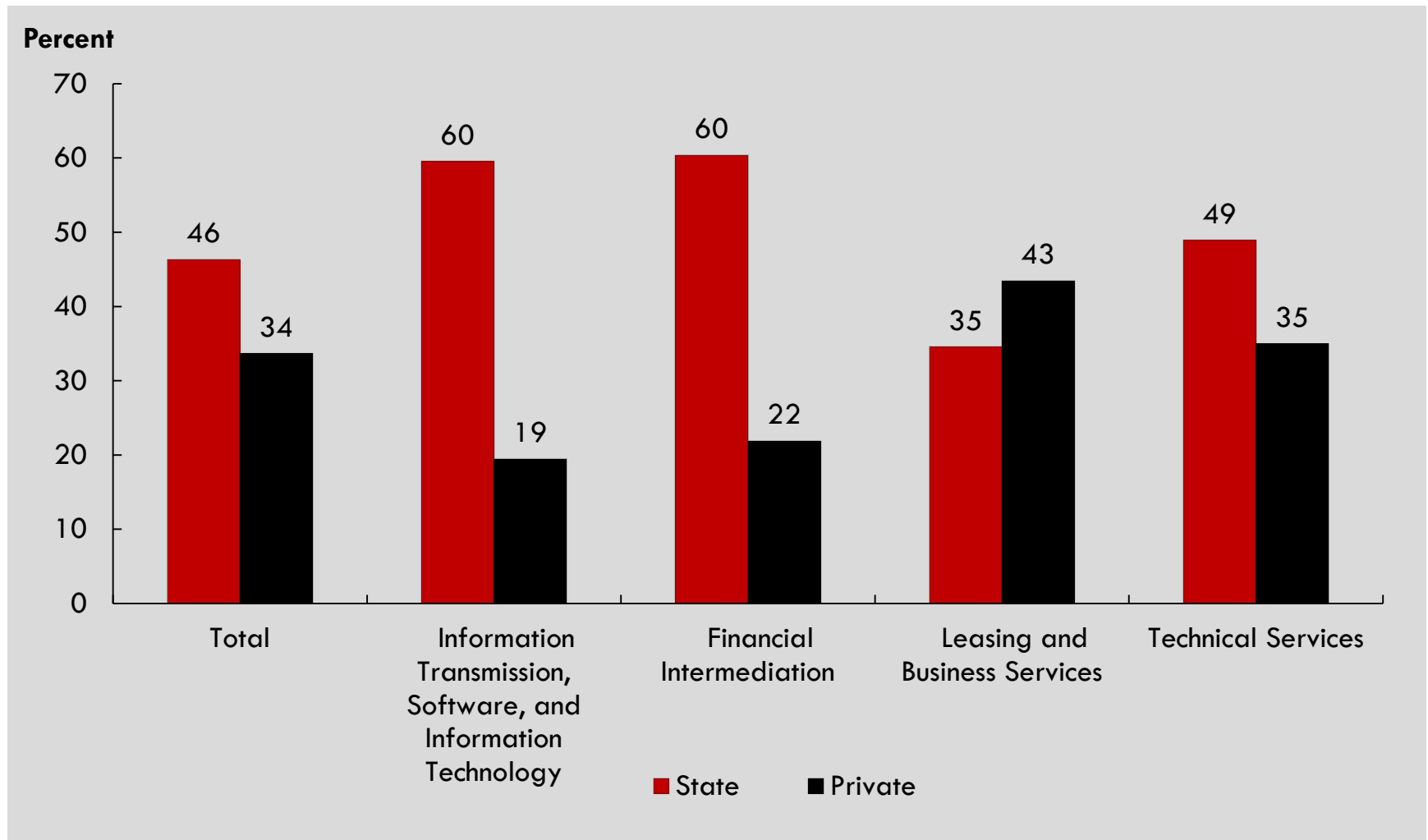
We must ensure **the decisive role of the market in allocating resources** and further **eliminate different forms of monopoly**.

- Communiqué of the Third Plenum,
November 12, 2013

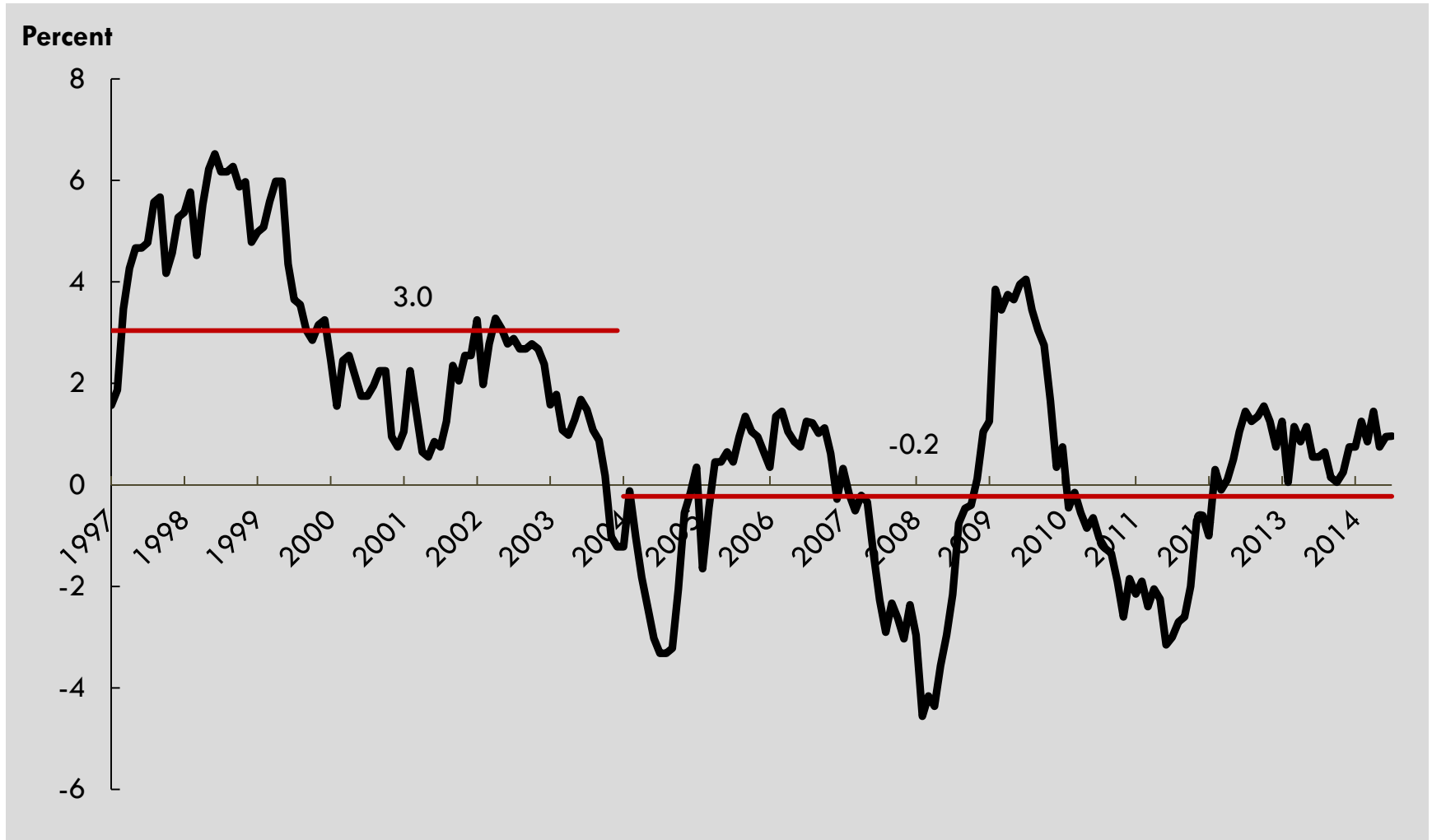
Fixed investment in services by ownership, 2006 - 2012



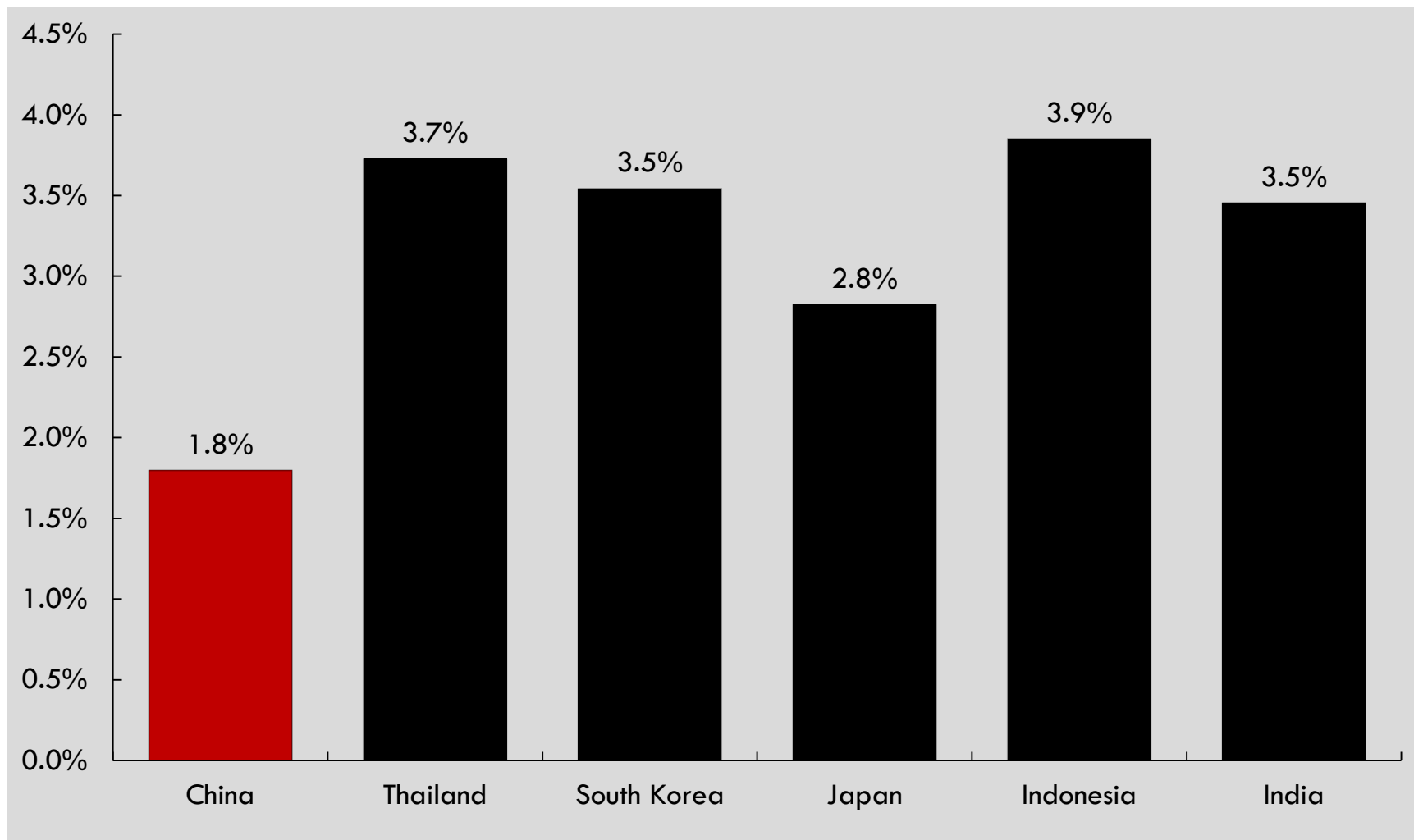
Fixed investment in modern services by ownership, 2012



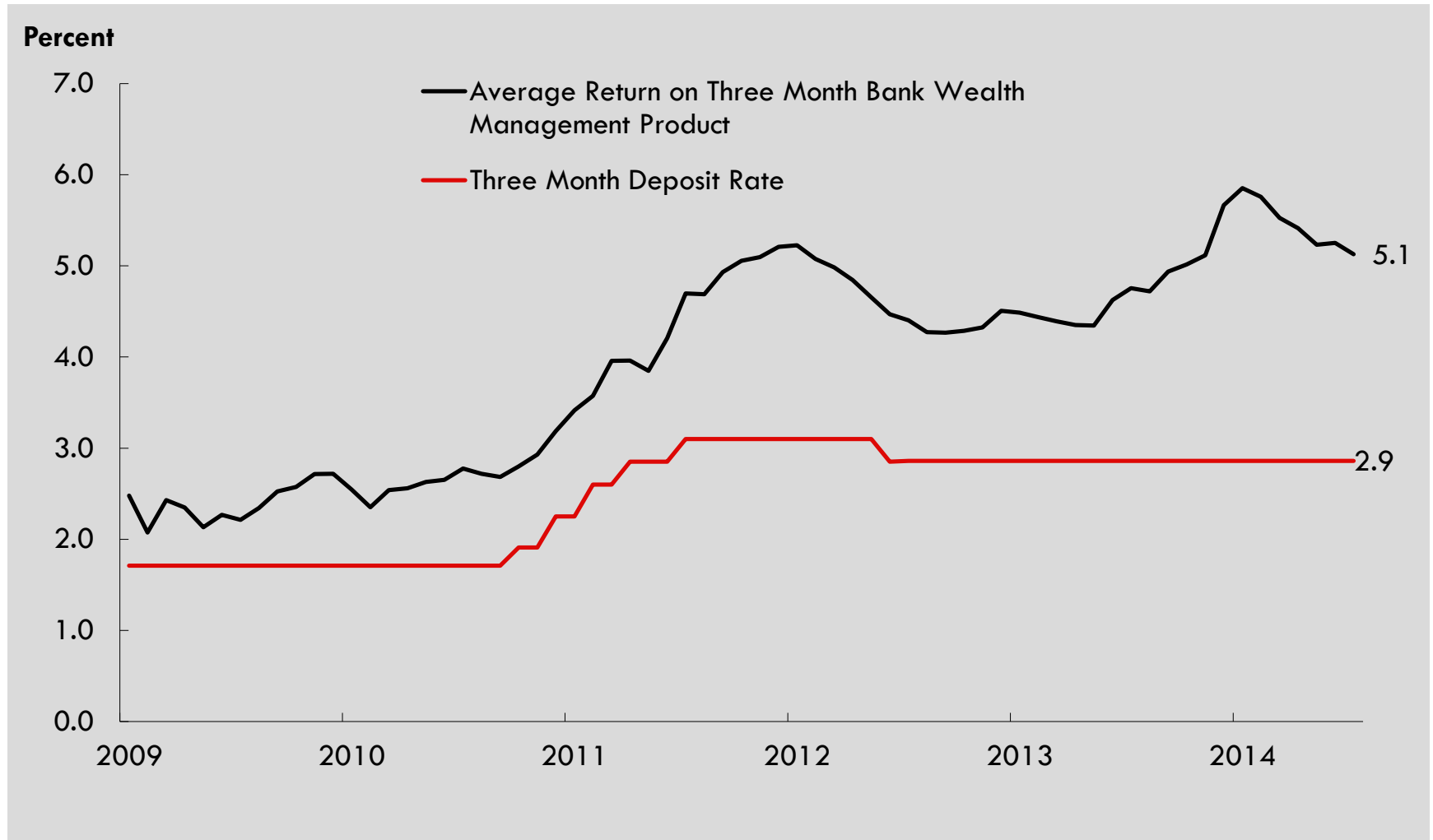
Real deposit rate, 1997 – 2014 Ytd.



Average real lending rate, 2007 - 2013



Bank WMPs vs deposit rate, 2011 - 2014 Ytd.



Conclusion

- China's growth largely reflects the **rise of market forces and private businesses.**
- China has **not developed a successful model of state capitalism.**
- There was **no resurgence of the state during the Hu-Wen era (2003-13).**
- China's **banking system does a much better job of serving the private sector** than its critics suggest.
- **State employs only 11 percent of China's labor force.**
- China can support further growth by **demonopolizing upstream oil and gas and modern business services.**