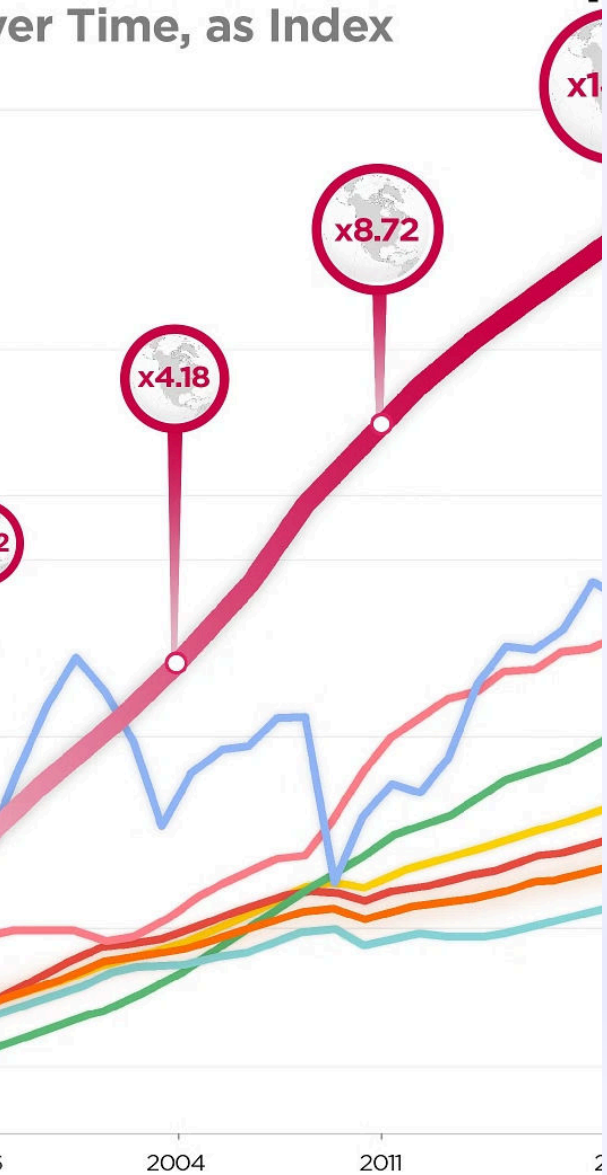


Economic Growth in Perspective  
Over Time, as Index



# China's Growth Miracle: Local Governments and POEs&FOEs

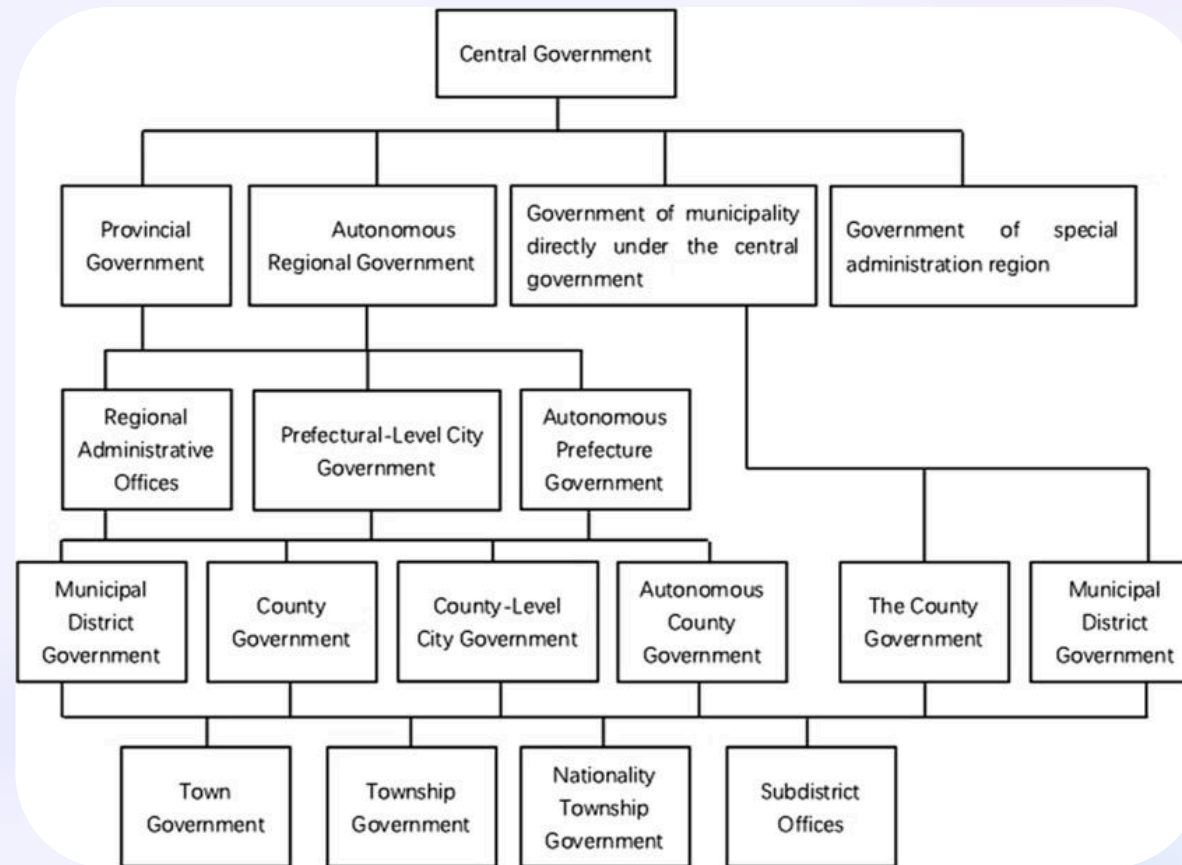
ECON3006 Asia-Pacific Economies

Why did the Chinese economy grow rapidly in the presence of large and unproductive SOEs and highly regulated factor markets?

- ① Local governments
- ② Private-Owned Enterprises (POEs) and Foreign-Owned Enterprises (FOEs)



# Local Government System in China



# A Mixed Governance System in China

- ① Political centralization with economic and administrative decentralization
- ② Responsibility System: Local governments and governors are in charge of (almost) every public matter within their borders
- ③ Lower-level governments have similar administrative structure with upper-level governments



## Example: Administrative Divisions in Chengdu

- ① Wang Fengchao (Mayor): comprehensive work
- ② Liu Xiaoliu (Executive Deputy Mayor): executive work
- ③ Wang Zhihua (Vice Mayor): investment promotion and safety production
- ④ Liu Renyuan (Vice Mayor): planning and natural resources, housing, and transportation
- ⑤ Wang Qian (Vice Mayor): education, human resources, social security, and healthcare
- ⑥ Chen Zhiyong (Vice Mayor): culture, tourism, and TV
- ⑦ Hu Guomin (Vice Mayor): public security, national security, and judiciary
- ⑧ Wu Hao (Vice Mayor): commerce, trade, and market supervision
- ⑨ Lin Nan (Vice Mayor): foreign affairs, ethnic affairs, religious affairs, and women and children affairs

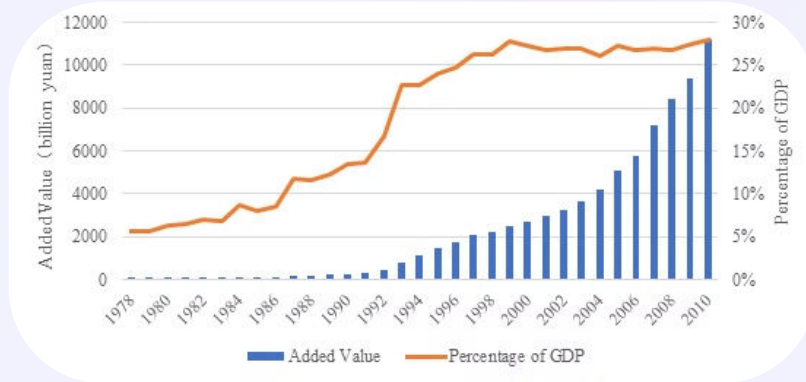
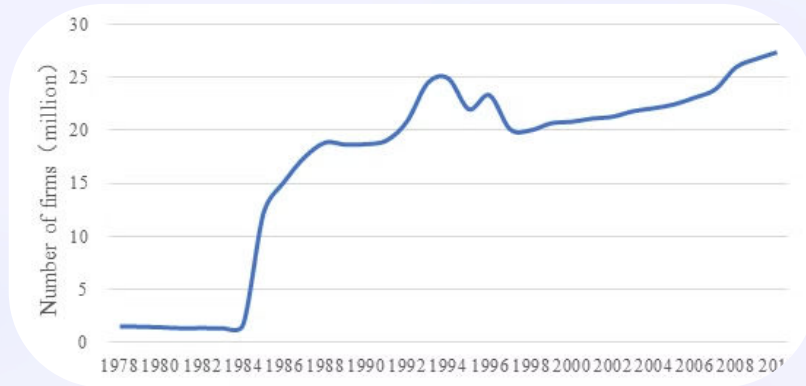


## What Do China's Local Governments Care about?



# Local Governments Promote POEs

## Township and Village Enterprises (TVEs)



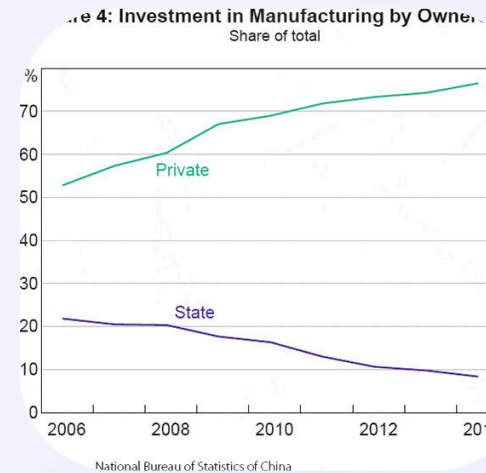
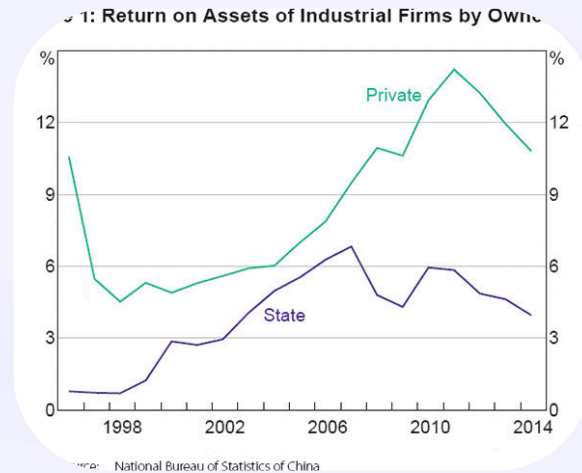
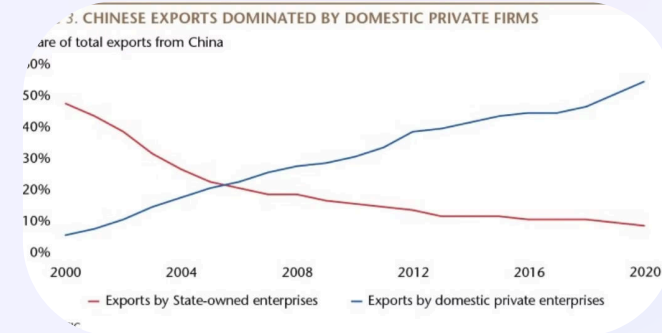
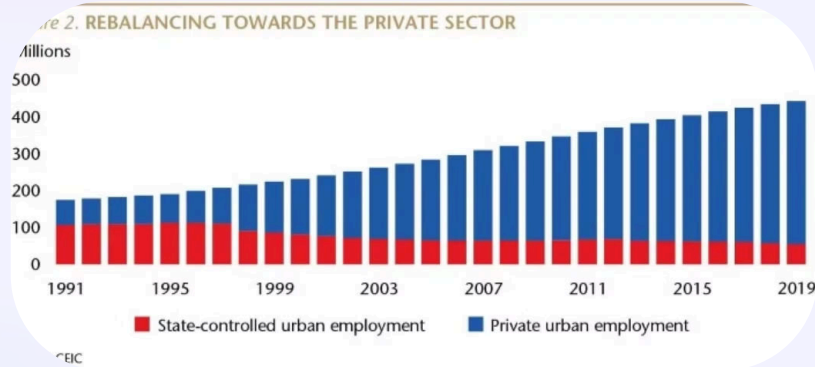
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# POEs' Contributions to the Chinese Economic Growth







# 环球城市招商引资推介大会

## GLOBAL PROMOTION EVENT FOR BUSINESS INVESTMENT ATTRACTIVITY

## Local Governments Actively Attract FIEs

### Policy Tools

- ① Land
- ② Labor
- ③ Banking credit
- ④ Taxes
- ⑤ Supply chains

#### Local governments:

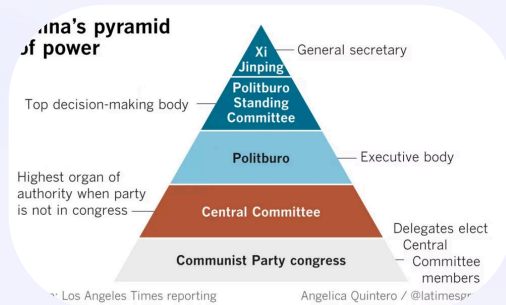
- Pre-set targets for attracting FIEs
- Competitions in all levels

#### Central government:

- Negative list
- Quid pro quo

# Why are China's Local Governments So Pro-Investment and Pro-Growth?

## Promotion Competition



## Local Fiscal Pressure



## Local Connections and Supports



# Summary

- ① Economic decentralization and the growth promotion incentives of local governments are key for explaining China's growth miracle
- ② POEs are protected but also regulated by local governors in the Chinese dual system → Crony Capitalism?
- ③ Local governments in China actively attract FOEs, whereas China's central government sets negative lists on FOEs

