



# From Command Economy to State Capitalism

ECON3006 Asia-Pacific Economies

# Developing or Developed?

## China's GDP Ranking

- Aggregate: 2nd (2023)
- Per capita: 72nd (2022) behind Mexico

## Core Cities



## Housing Price

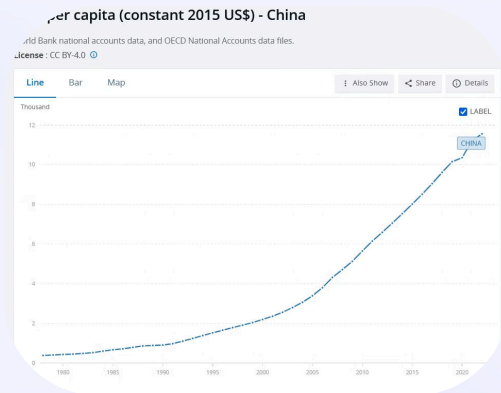
Rank	City	Price To Income Ratio	Gross Rental Yield City Centre	Gross Rental Yield Outside of Centre	Price To Rental Ratio City Centre
1	Guangzhou, China	33.0	1.1	1.7	93.7
2	Taipei, Taiwan	28.8	1.2	1.8	81.9
3	Seoul, South Korea	24.9	1.3	1.3	77.3
4	Shenzhen, China	33.7	1.3	1.3	75.3
5	Shanghai, China	47.9	1.5	1.5	65.9
6	Beijing, China	33.7	1.6	1.6	62.3
7	Kaohsiung, Taiwan	16.7	1.8	2.4	54.9
8	Hong Kong, Hong Kong (China)	32.1	1.8	2.0	54.2
	Taichung, Taiwan	18.2	2.0	1.9	49.7
	Mumbai, India	38.5	2.1	2.1	

## Disposable Income

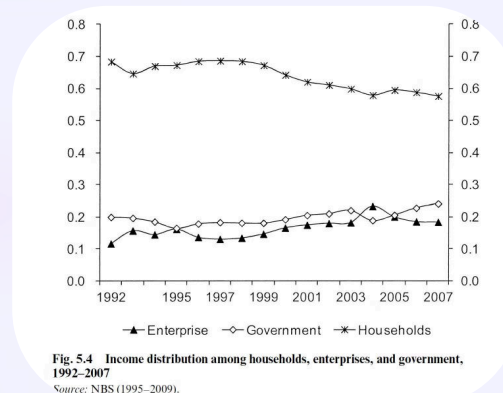


# Unshared Growth Outcomes

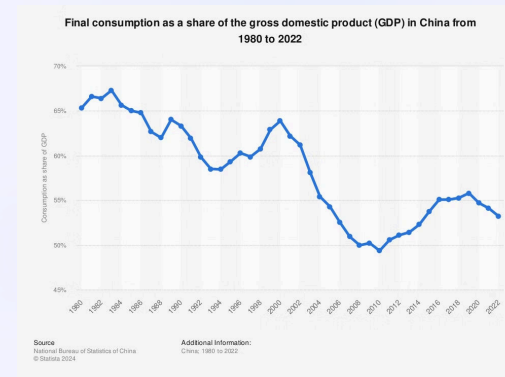
## Rapid Growth



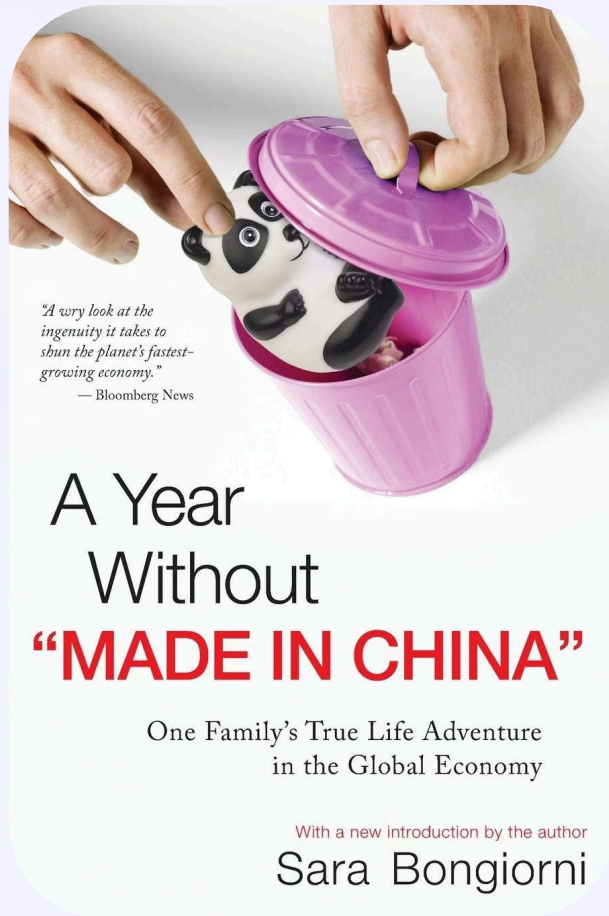
## Low Household Income Share



## Low Consumption

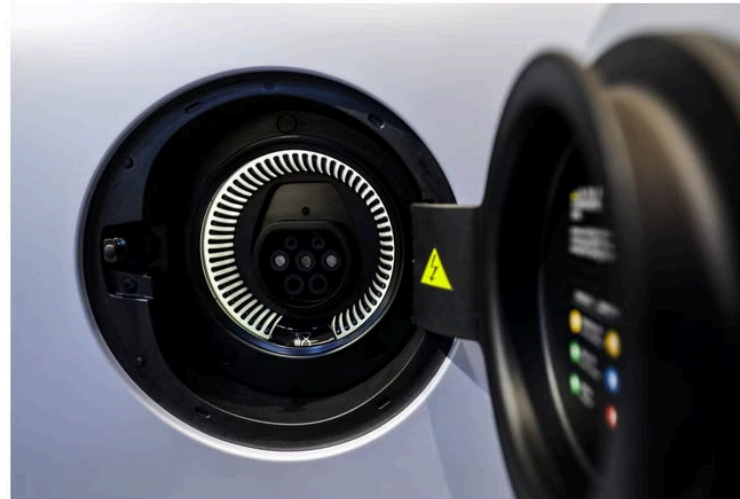


# World Factory or World Job Threat?



## EU Moves Toward Hitting China With Tariffs on Electric Vehicles

- The bloc found 'sufficient evidence' indicating subsidies
- EU could impose duties on Chinese imports as soon as July



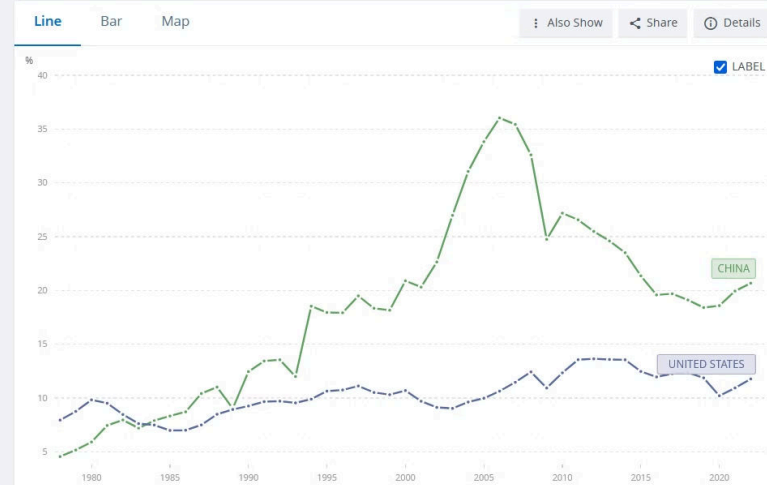
An electric vehicle charging plug. Photographer: Qilai Shen/Bloomberg

# Non-Transparent Global Giant

## Exports of goods and services (% of GDP) - , China, United States

World Bank national accounts data, and OECD National Accounts data files.

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THE NIKKEI VIEW

## China still lacks transparency 20 years after joining WTO

Clear policy guidance and state-enterprise reform are sorely needed

December 15, 2021 13:02 JST

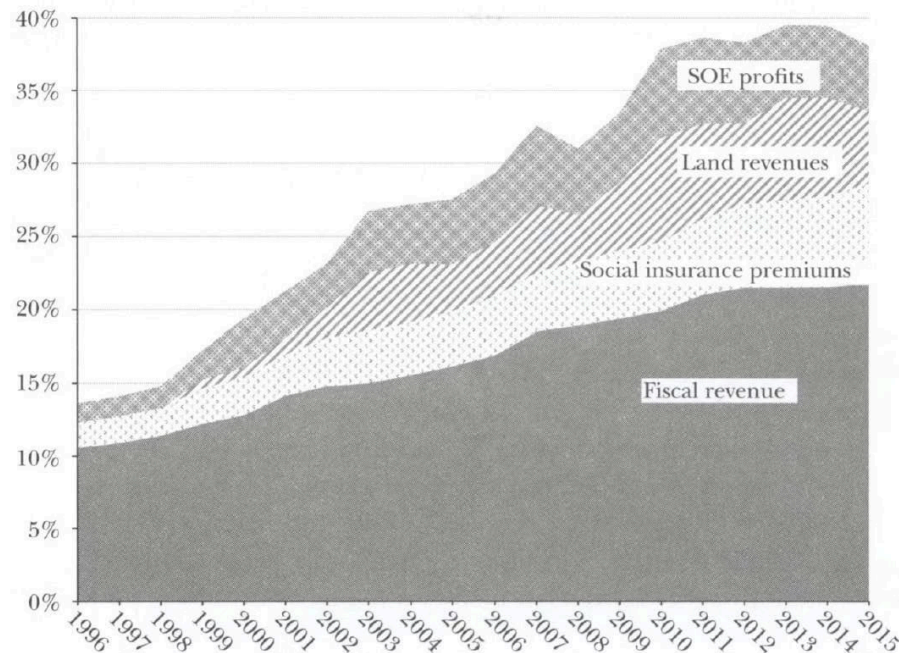
China announced at a key meeting on economic management for 2022 that it would prioritize stability by focusing on business conditions. The emphasis on stability -- more prominent this year than in others -- comes amid tremendous downward pressure on Chinese growth.

However, there was no mention at the Central Economic Work Conference of the fact that the unexpectedly large slowdown was mainly because of economic policies launched without explanation by the administration of President Xi Jinping. Greater transparency is a must if this "policy-induced slump" is to be overcome.



# Government Revenue vs. Public Services

**Public Revenue in China**  
(% of GDP)



Source: Chinese government sources; for details, see Data Appendix available with this paper at <http://e-jep.org>.

Note: SOE is "state-owned enterprises."

## Government Expenditure on Education (% of GDP, World Bank)

China: 3.3

Japan: 3.3

Korea: 4.8

France: 5.2

Mexico: 4.6

US: 5.4

OECD  
average: 5.0

## Government revenue (% of GDP, IMF2022)

① Japan: 37.24

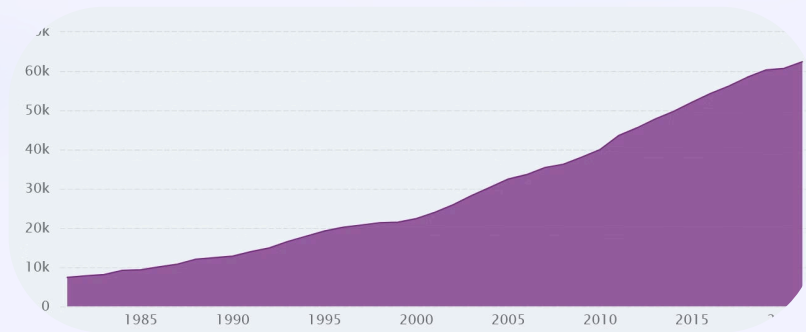
② Korea: 27.08

③ US: 32.55

④ OECD average:  
about 30

# Land vs. Population Urbanization

## Land Urbanization



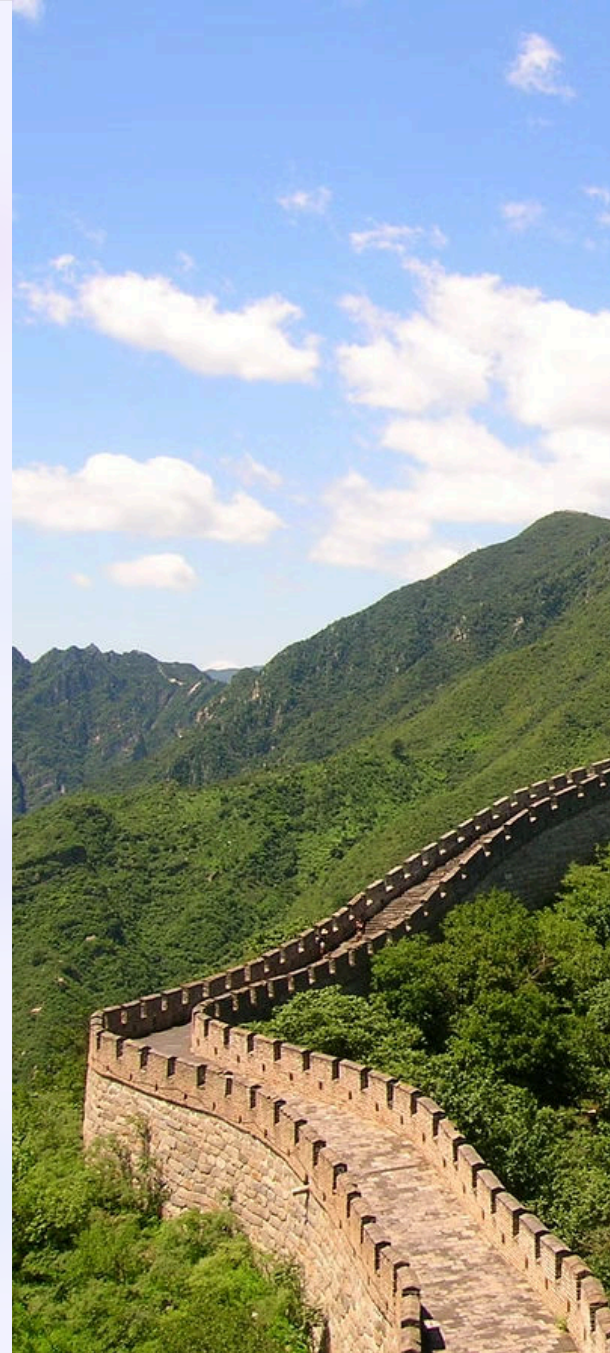
**Area of Built District (China)**

## Population Urbanization

- Urban Residents:
  - 65.22% in 2022
  - 36.09% in 2000
- Urban "Hukou" Residents:
  - 45.4% in 2022
  - 25% in 2000

# Chinese Model?

- ① Anglo-Saxon model: Hong Kong
- ② Asian model: Japan; Korea → Singapore (GLC)
- ③ China: Command Economy → State Capitalism
  - Deviations from the "standard" model?
  - Understand the problems China aims to solve





# Command Economy in China (1958-1978)

- ① Centralized Procurement and Centralized Distribution (CPCD)
- ② State controlled for all factors of production



# Command Economy in China (1958-1978): Centralized Procurement and Centralized Distribution (CPCD)

## Centralized Procurement (1953-1978)

- 1 Eliminate markets for agricultural products
- 2 State directly collected agricultural products according to "plans"
- 3 Do not allow for household small-scale farming production
- 4 Collective agricultural labor, compensated according to work points

## Centralized Distribution (1953-1985)

Rationing system for food and daily necessities in cities



# Command Economy in China (1958-1978): State Controlled for All Factors of Production

## Labor

- Strictly limit the transfer of labor between urban and rural areas
- Recruiting manufacturing workers through administrative orders
- Select college students through recommendation

## Capital

- No banking and other financial intermediaries
- Investment decided by administrative orders
- State held all foreign exchange reserves

## Land

- All urban land is state-owned
- Administratively allocate and distribute land
- No land or housing market

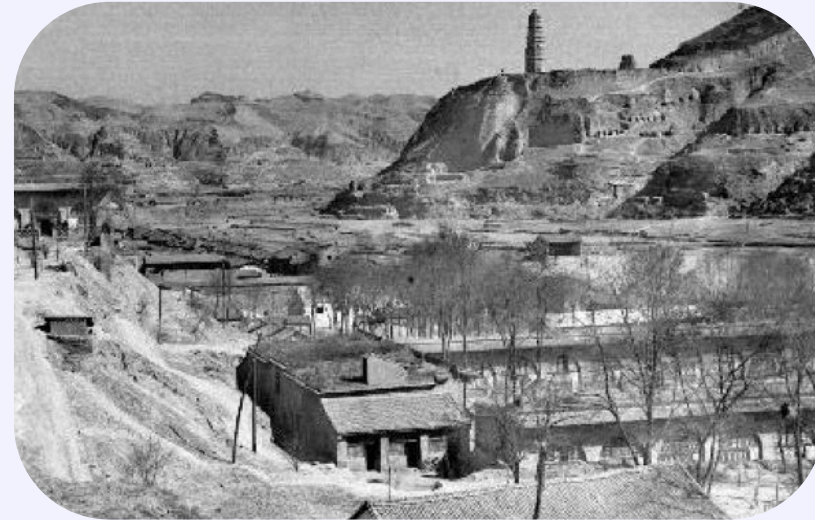
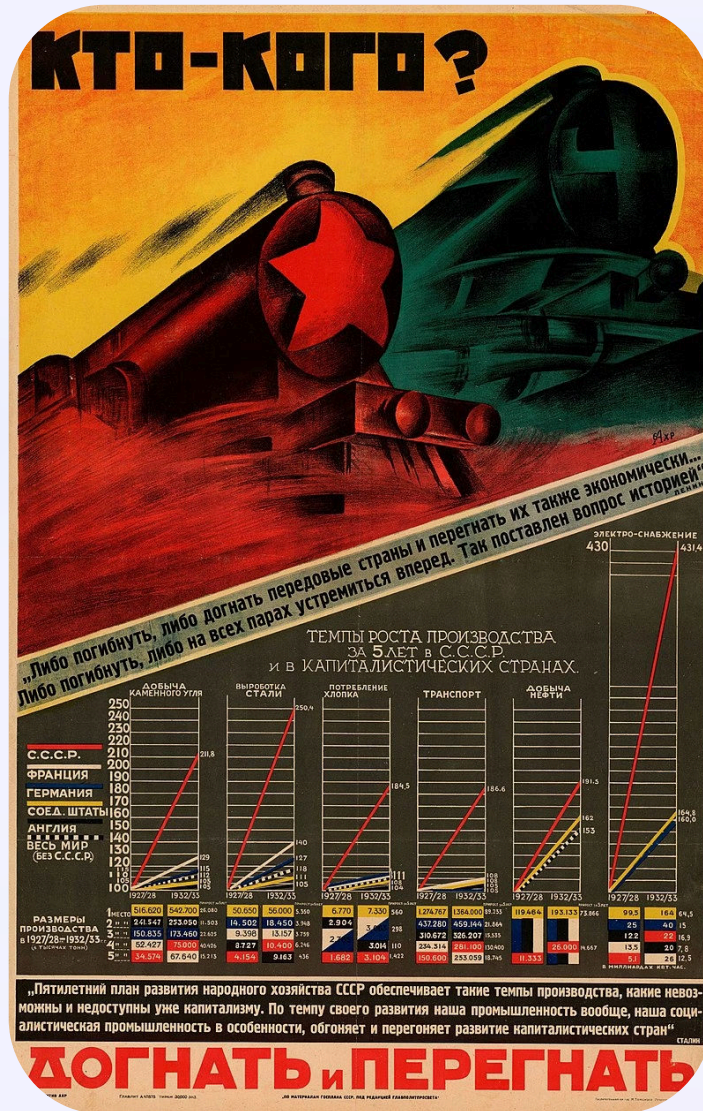
# Command Economy in China (1958-1978)

① Why?

② Crisis?



# Why Command Economy? Pattern Sources



# Why Command Economy? Practical Considerations

## Chinese Economy in 1949

- Unskilled rural workers
- Very weak industrial foundation
- Trade interruption with Western countries

## Target

- Rapid heavy industrialization

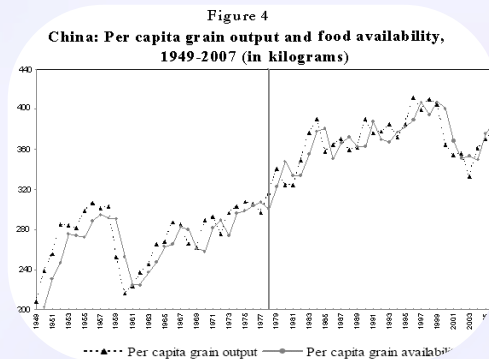
## Challenges

- Lack of capital: how to ↑ saving rate?
- Lack of food for urban workers

# Command Economy = Shortage Economy

1

Severe food shortage



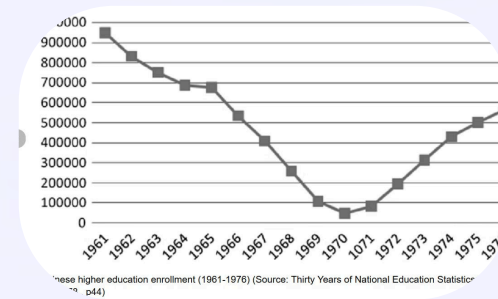
2

SOEs lack competitiveness

- **Soft budget constraint**
- Insufficient response to changes in demand
- Lack of reward for entrepreneurial spirit

3

In short of youth talents/entrepreneurs



# How to Reform?



- **Opening up** precedes reform
- **International talent exchange** precedes trade openness

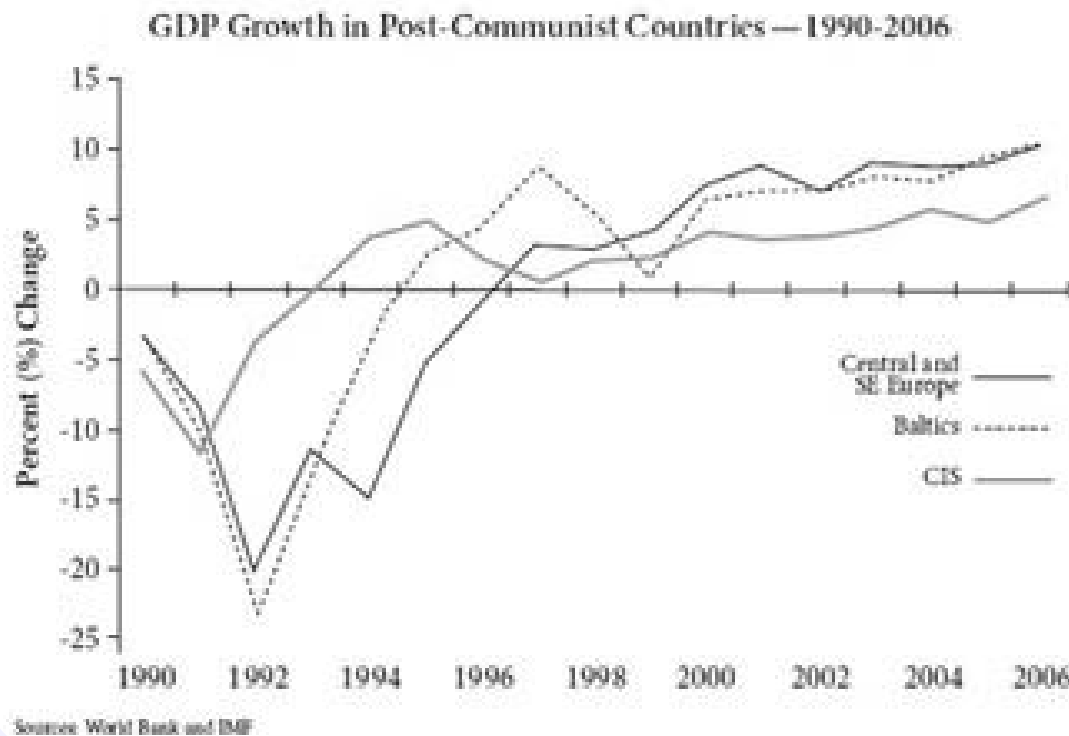
## Options

- ① Shock therapy
- ② Dual-track reform



# Shock Therapy

Figure 1



① Insider control

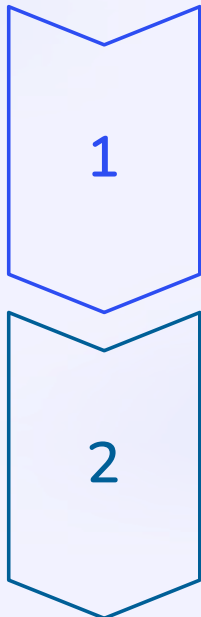
② Production disruption

③ Social instability

Central Europe: Poland, the Czech Republic, Slovakia and Hungary; Southeast Europe: Bulgaria and Romania; Baltics: Estonia, Latvia, Lithuania; CIS: Russia, Belarus, Ukraine, Moldova, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan



# Dual Track Reform



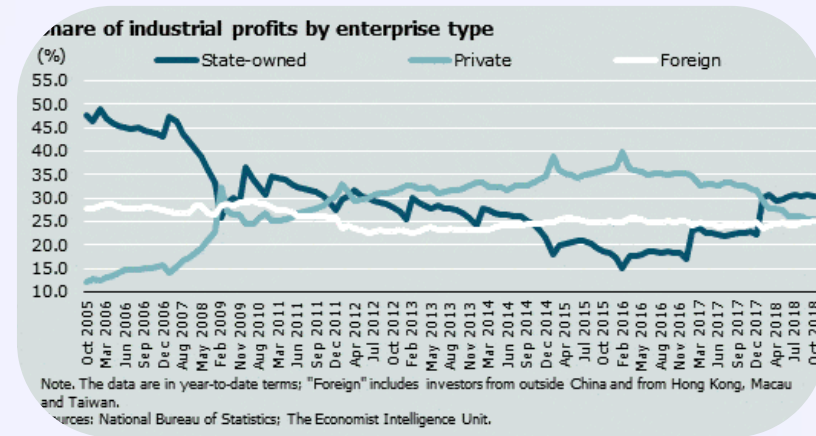
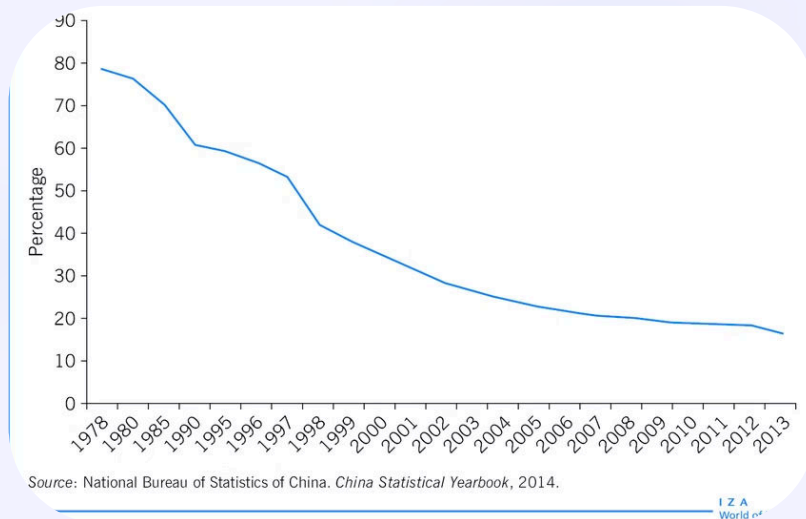
Keep most of the SOEs

State controls in  
"strategic" areas: e.g.  
banking

Promote private and foreign  
firms in certain areas

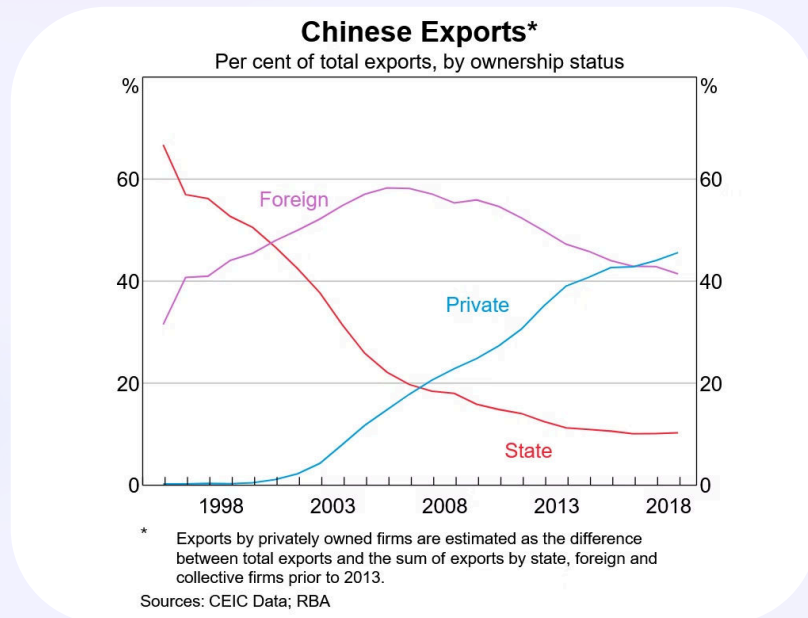
- ① Light industries
- ② Export-oriented industries

# "State" Track



Share of state-owned enterprises responsible for urban employment in China

# "Market" Track



## China Top 5 Private Enterprises

Company	Revenue(in billion yuan)	Industry
 Huawei Technologies Co Ltd	521.57	Electronics, telecom
 Suning Corp	412.95	Retailing
 Shandong Weiqiao Pioneering Group Co Ltd	373.18	Textile
 HNA Group	352.33	Airlines, tourism, investment
 Amer International Group Ltd	330.01	Metals

2016



# China's State Capitalism

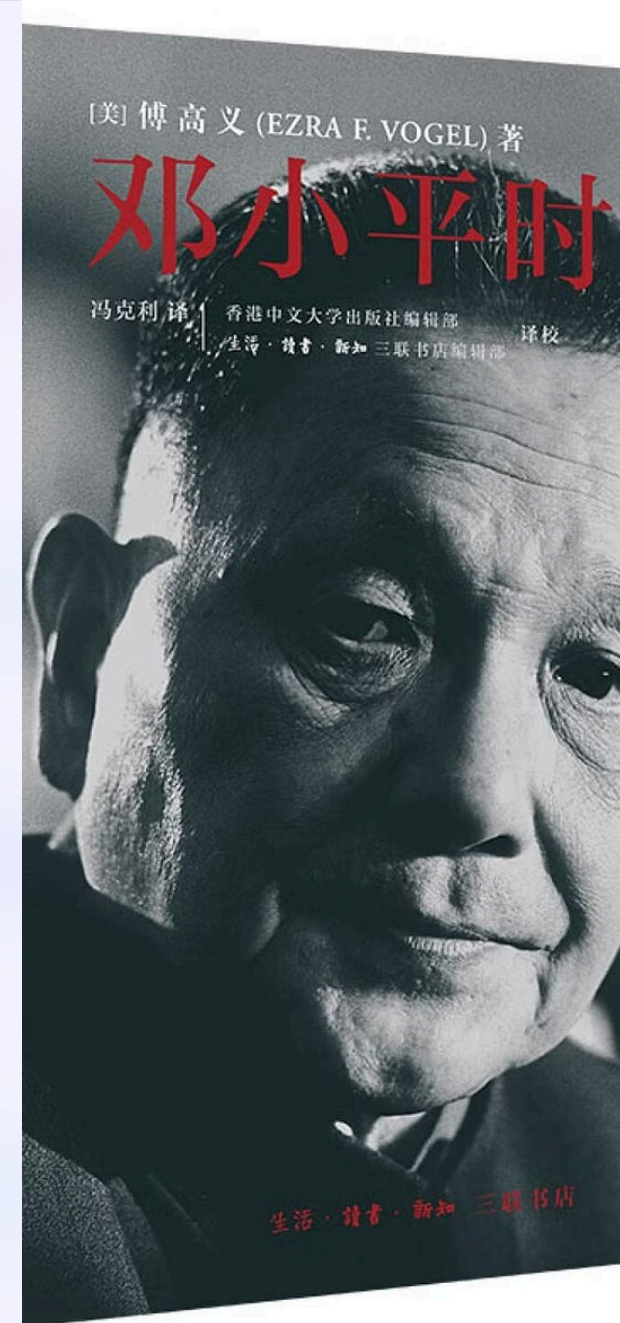
SOEs in the upstream  
sectors: e.g. resources

Private firms in the  
downstream sectors: e.g.  
retailing

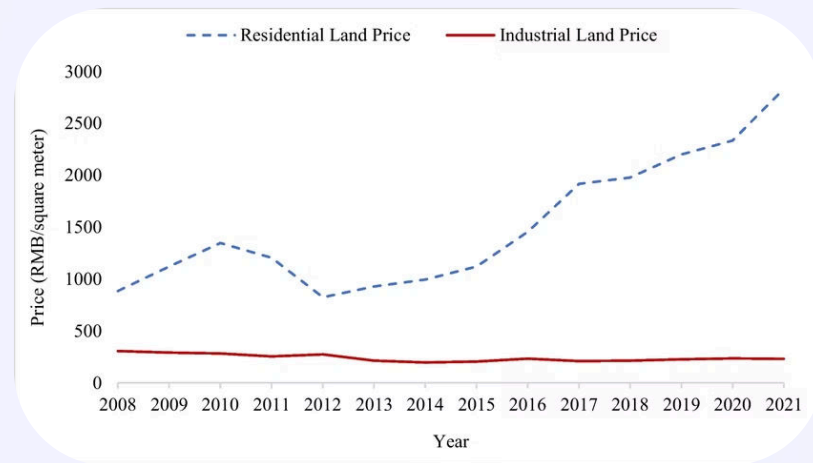
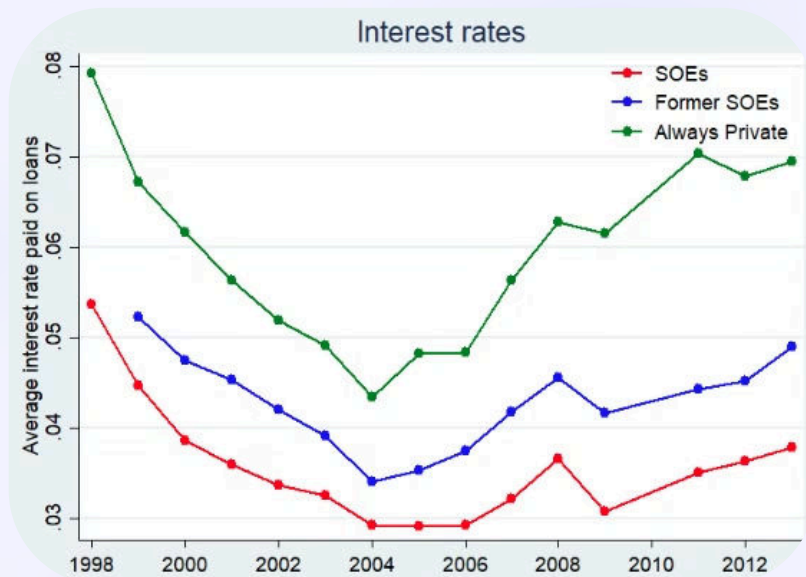
Liberalized and highly  
competitive goods markets

State-controlled and  
regulated factor markets:

- Labor: *hukou*
- Capital
- Land



## State-Controlled and Regulated Factor Markets



# Summary

- ① Complex images and unique features of the Chinese economy
- ② China's command economy and its heritage
- ③ Dual-track reform and state capitalism