

The background of the slide is the flag of the People's Republic of China, featuring a red field with five golden-yellow stars in the canton: one large star and four smaller stars arranged in an arc.

Reforms

## ★ Specific reforms

- Openness (trade + FDI)
- Urban rural equilibria (Hukou System)
- Fiscal Reform
- Industrial policies
- One child policy
- Agriculture

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## Trade and FDI

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# China and the world (import export)



# ★ Why opening?

- China was less performing then other Asian countries more export oriented.
- Needs of technologies and capitals
- No domestic resources to support growth and imports
- Need markets to export

# Import export

- Export of labour intensive goods
- Import of machineries and technologies
- Export gave to China an (almost) inexhaustible market
- Trade was a crucial part of Chinese reforms since the beginning

## At the beginning: “double air lock”

- 12 national foreign trade companies (FTCs) had monopoly both on import and export
- Exchange rate set arbitrarily and RMB was not convertible
- FTCs adapted import prices to local prices to respect the plan

## ★ Initial reform steps

- First Guangdong to “exploit” Hong Kong: export processing contracts
- opening of 4 special economic zones (Sezs) in Guangdong e Fujian
- Guangdong e Fujian had more autonomy on import export activities
-



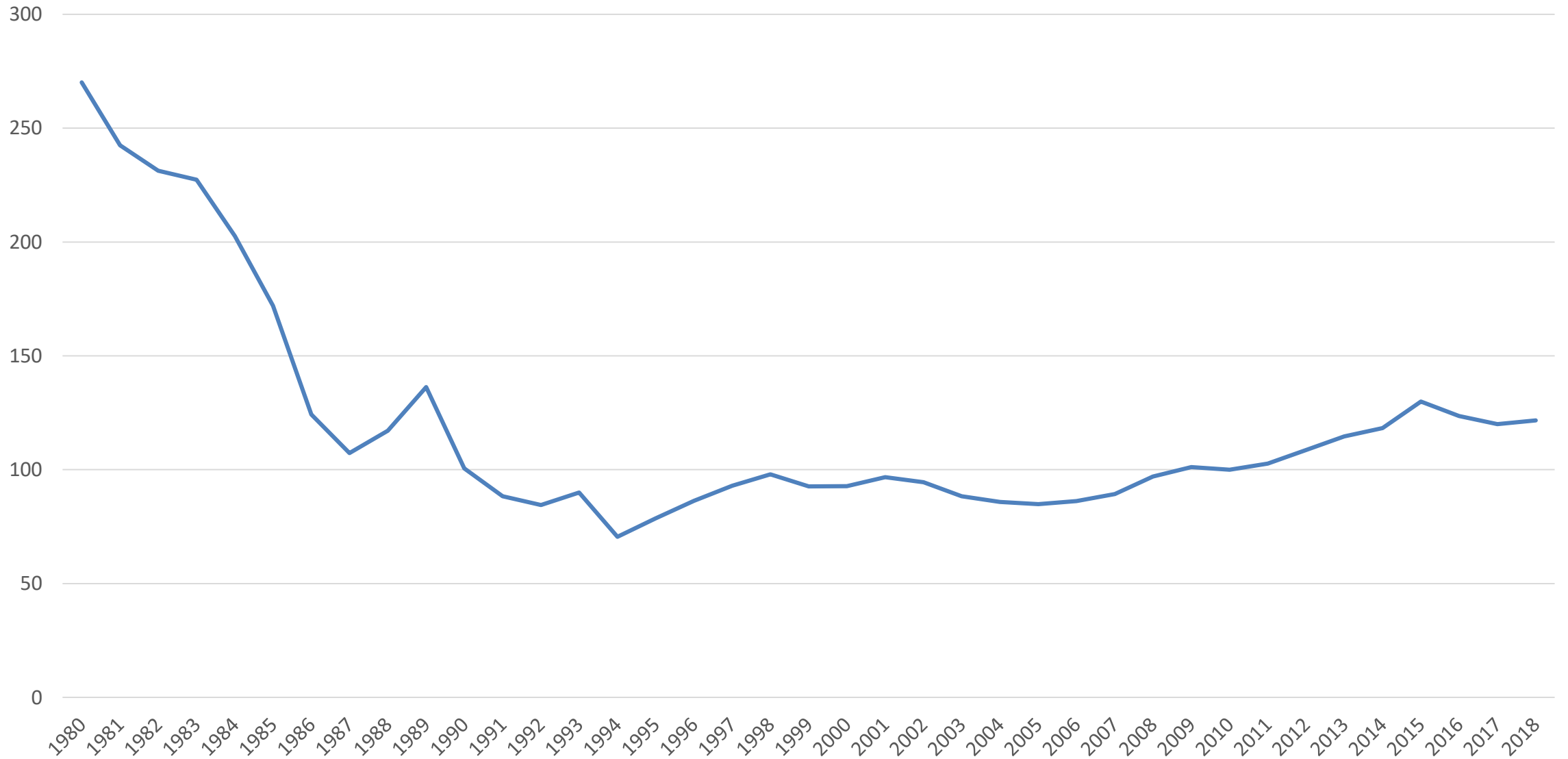
# Liberalization of Foreign-Trade System (mid 80ies)

Set four goals

- Setting a realistic exchange rate
- Demopolization of trading system
- Liberalizing import prices
- Setting up normal tariff system

# devaluation

Real effective exchange rate index (2010 = 100)



# Demopolization of trading system

- More FTCs allowed (to 5000)
- Import export right to 10.000 manufacture enterprises
- Export more liberalized than imports
- Export procurement abandoned in 1988
- Foreign exchange targets and contracts applied to FTCs
- Provinces could retain foreign exchanges above the contracts

## ★ Liberalizing prices

- World price gradually allowed to influence local prices
- FTCs became more cost sensitive because, due to the new contracts, they were taking risks
- FTCs focused on labour intensive good produced by Tves that were not under the Plan



# Tariff and nontariff barriers

- High tariffs and nontariffs barriers to protect domestic enterprises
- Import control: mix of tariff, quota, and administrative guidance

# Liberalization of Foreign-Trade System (mid 80ies)

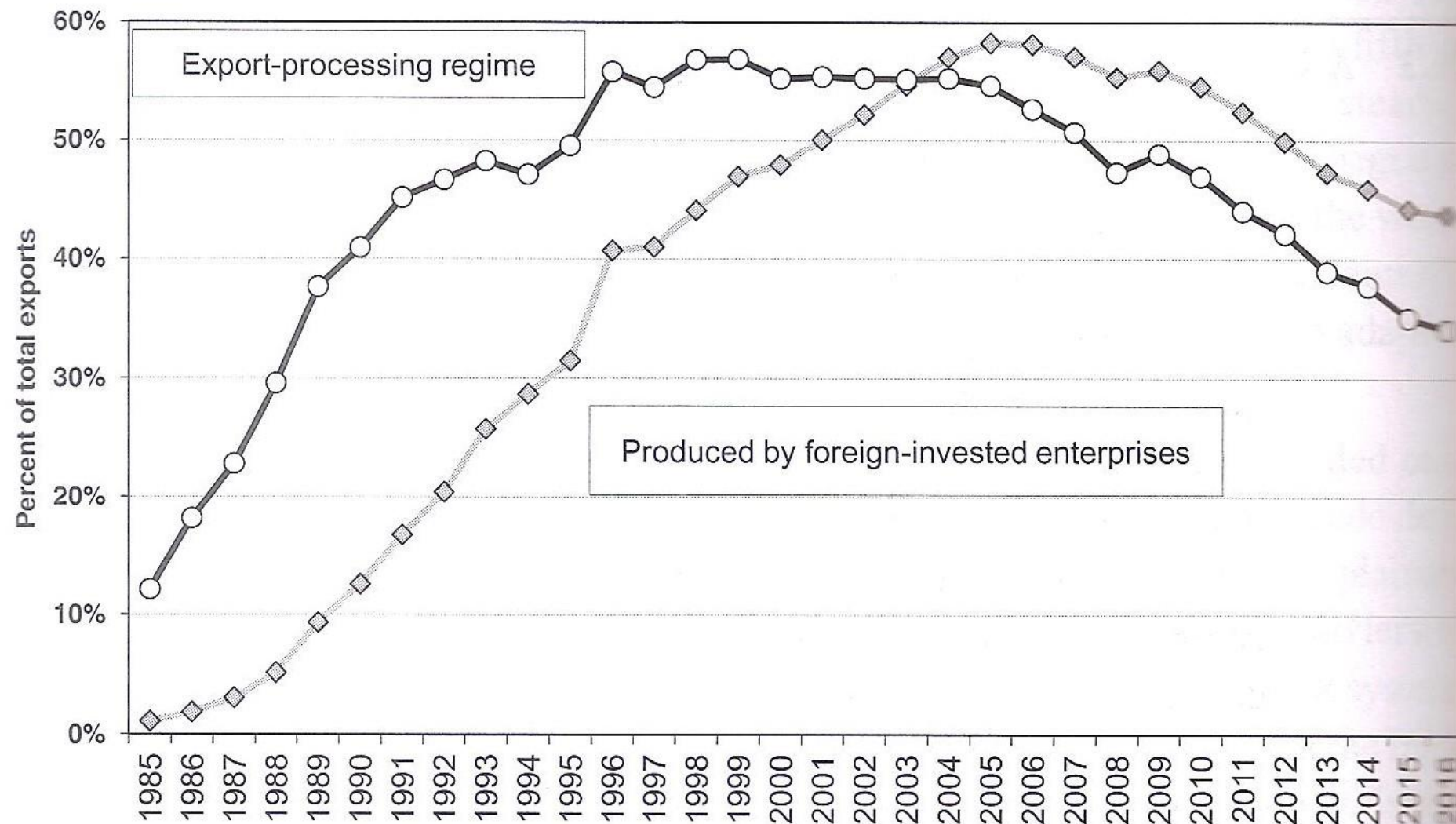
After 1986 two regimes:

1. Export processing trade
2. Ordinary trade

These opportunity extended to all coastal provinces (and later to all the country)

These regimes are still in place today but the important of the two changed

# Export regime in China





# ★ 90ies

- Yuan devaluation
- End of State monopoly for import export activities
- Development of tariffs and non-tariffs barriers (export rights included)
- Import substitutions + export promotion (average tariff 43% in 1992, 9,4% in 2005)
- Yuan convertibility (sort of....) (1994)
- 2001 WTO (a long process end very (maybe too) fast)



# China and the WTO

- Entering the WTO is a Journey
- Granting broader and fairer access to domestic market in exchange for greater access for (light) manufacturing goods

## Committments

- No more monopoly of FTCs (2004)
- Limited role of tariff rate-quota (TRQ)
- lower tariff: from 43% in 1992 – 17% in 1999 – 9,4% in 2004

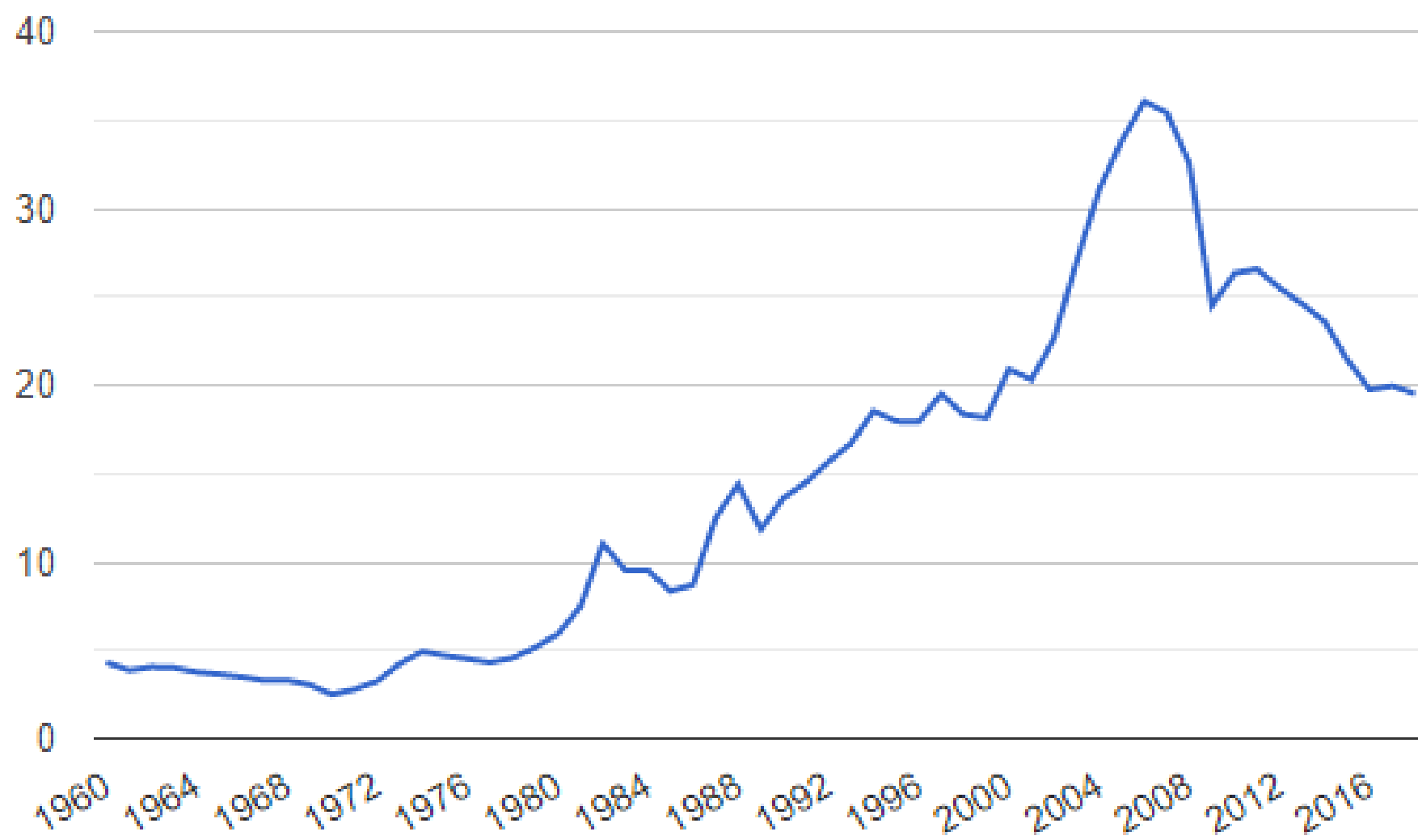
**Table 16.1**

Chinese exports: Share of total by firm ownership.

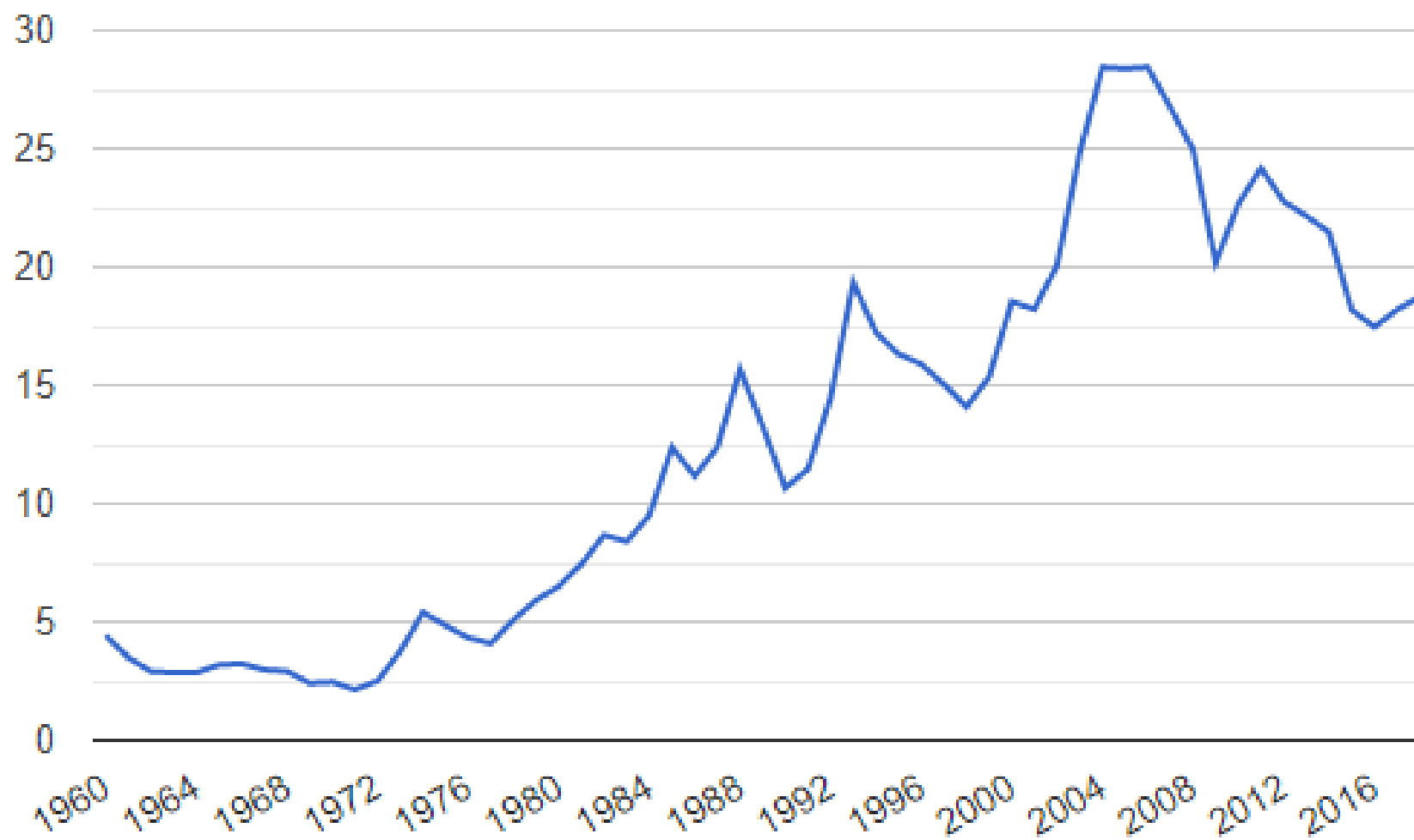
	1995	2005	2016
State-owned enterprises	66.7%	22.2%	10.3%
Foreign-invested enterprises	31.5%	58.3%	43.7%
Private domestic firms	0.2%	14.7%	43.6%
Collective and other	1.5%	4.8%	2.4%

Sources: *China Customs Statistics* (1995, 12; 2005, 12); General Administration of Customs.

## China - Exports, percent of GDP

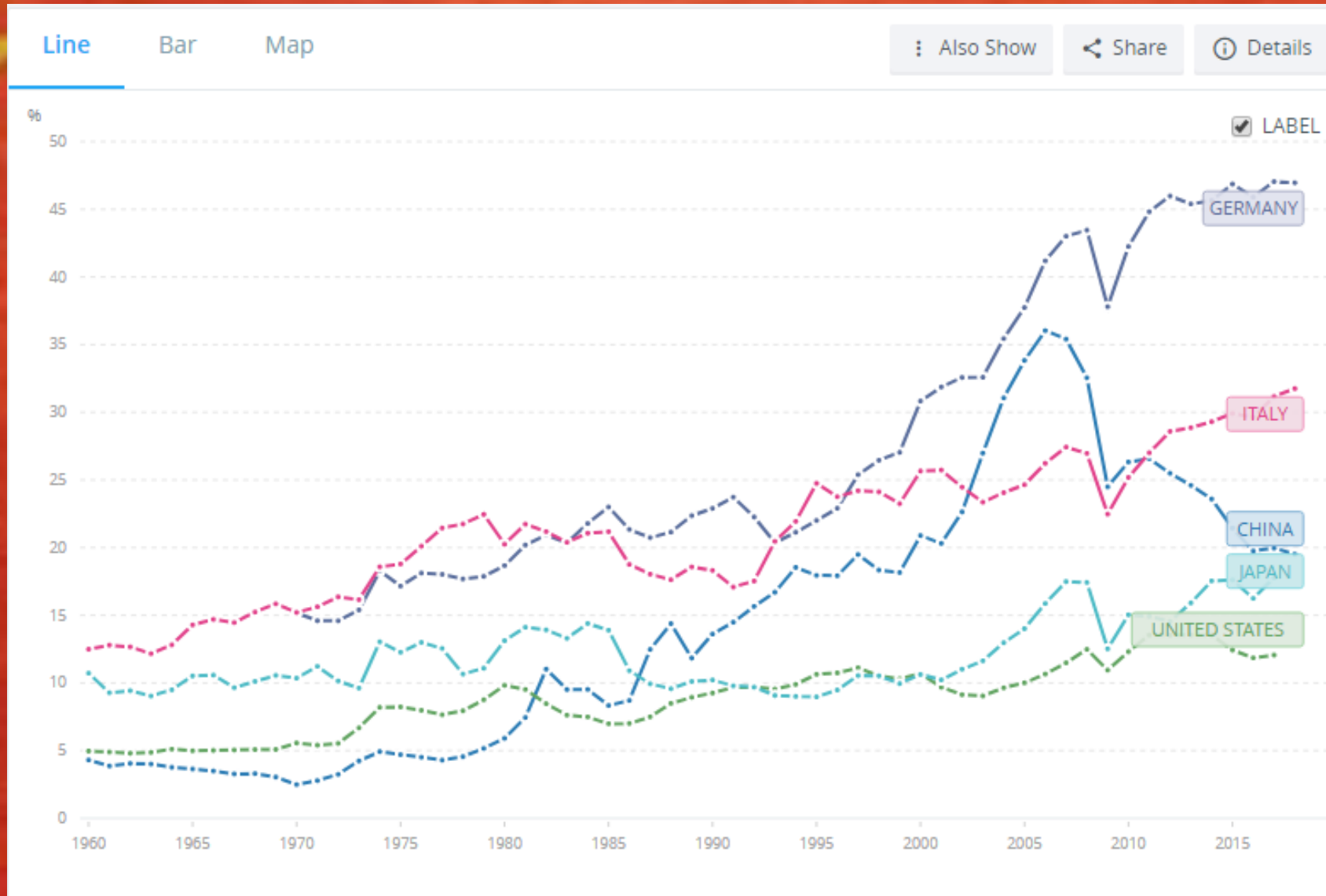


China - Imports, percent of GDP

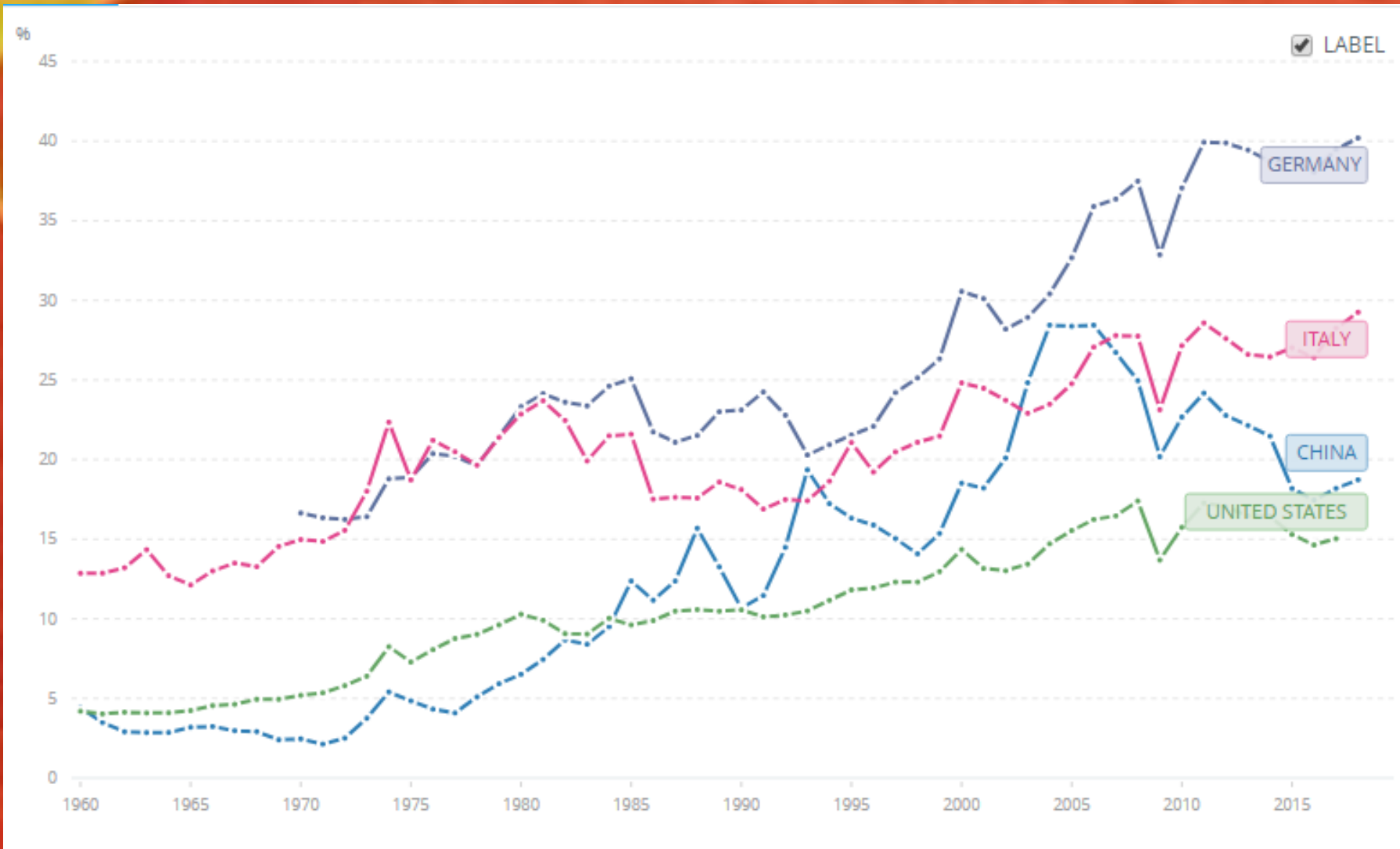




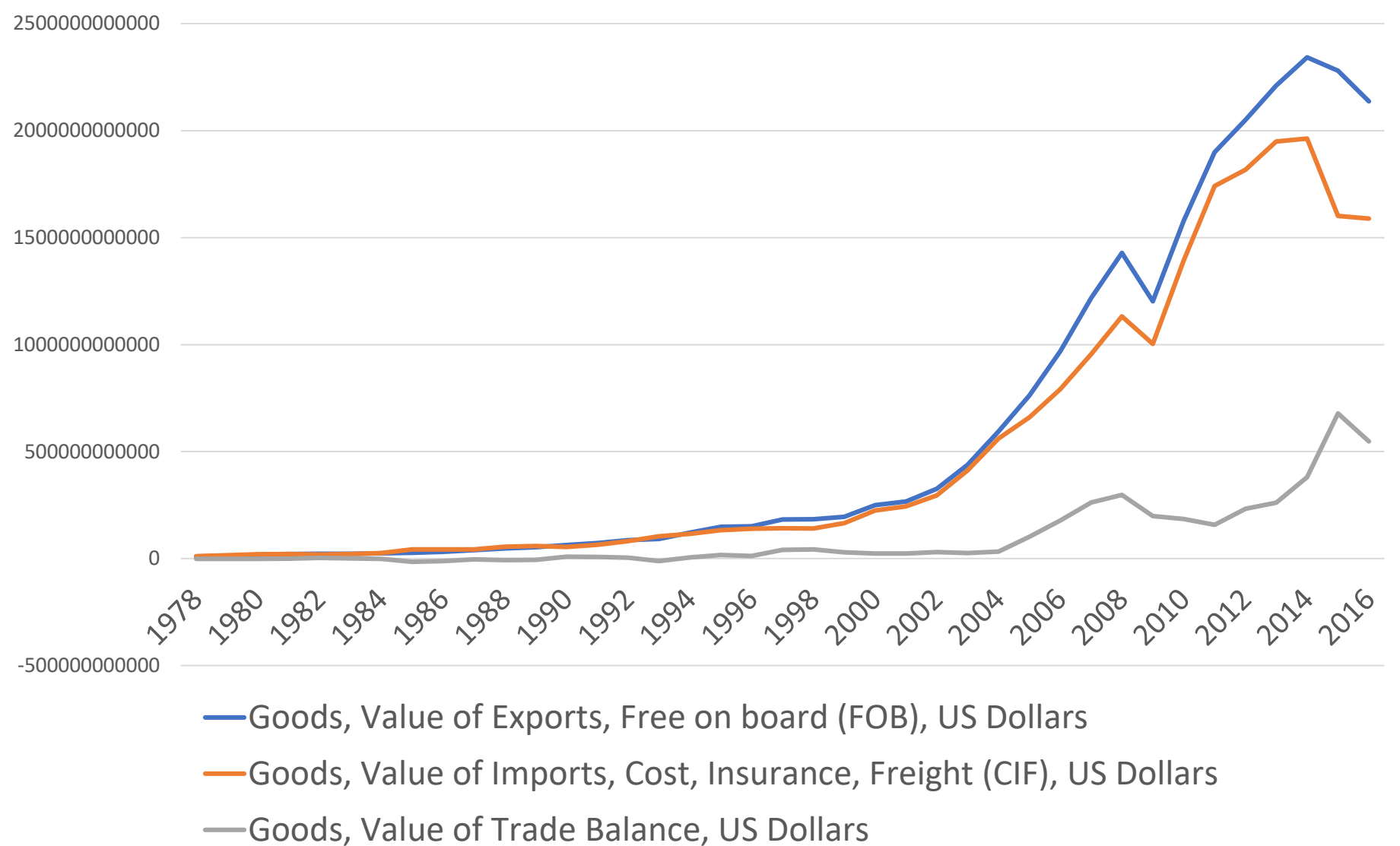
# Exports of goods and services (% of GDP) - China, United States, Germany, Italy



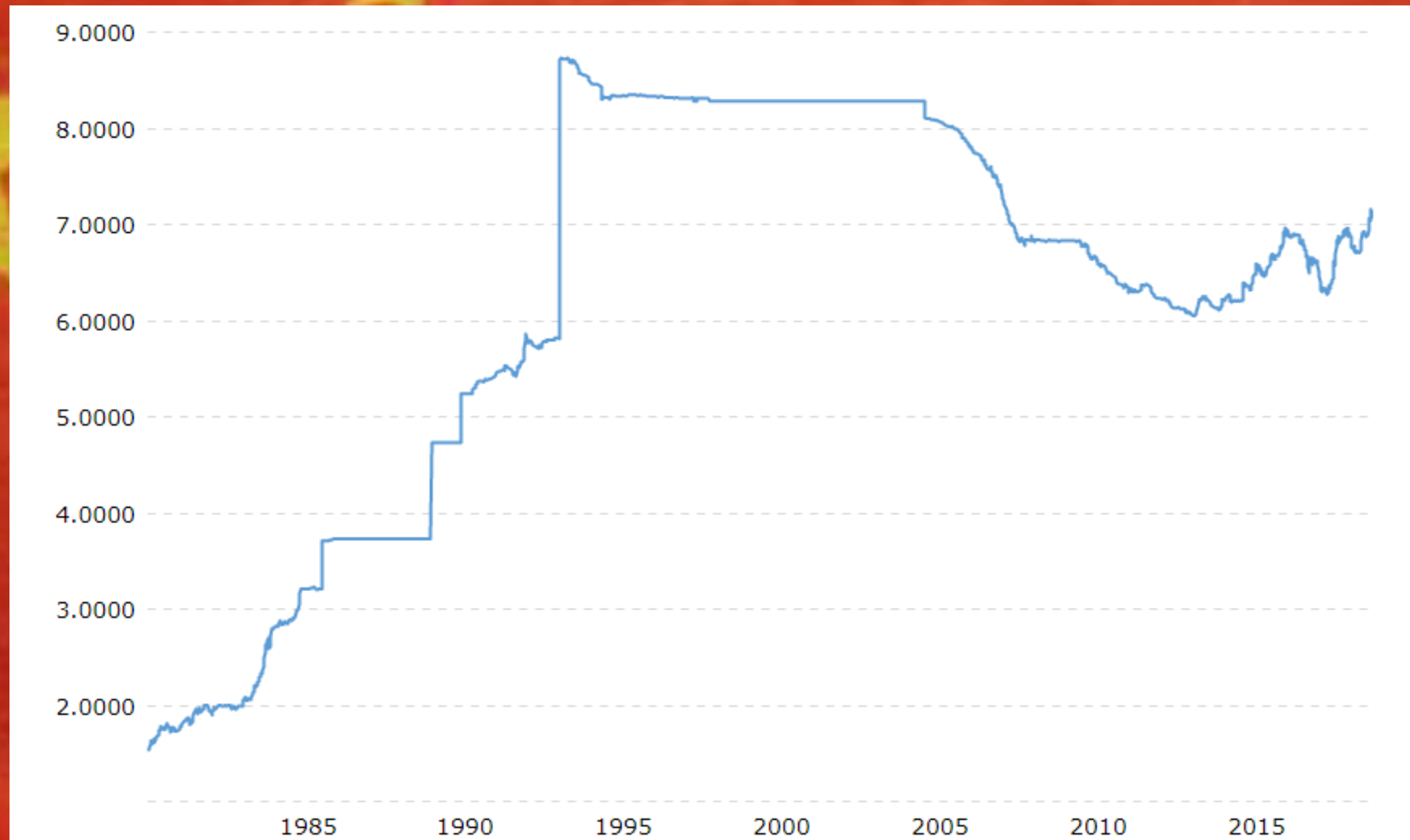
# Imports of goods and services (% of GDP) - China, United States, Germany, Italy



# China trade balance



# Exchange rate Yuan/US\$

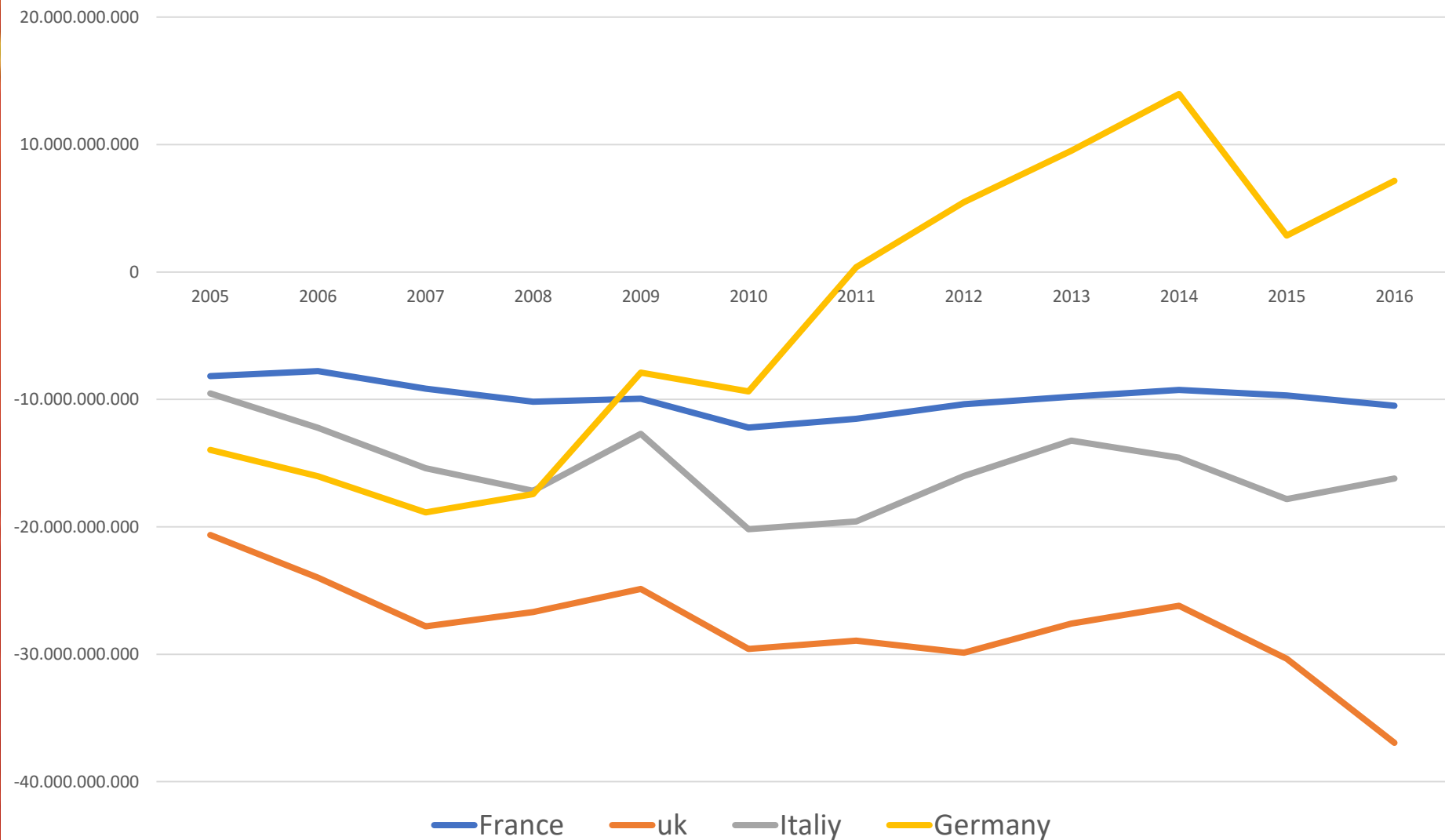




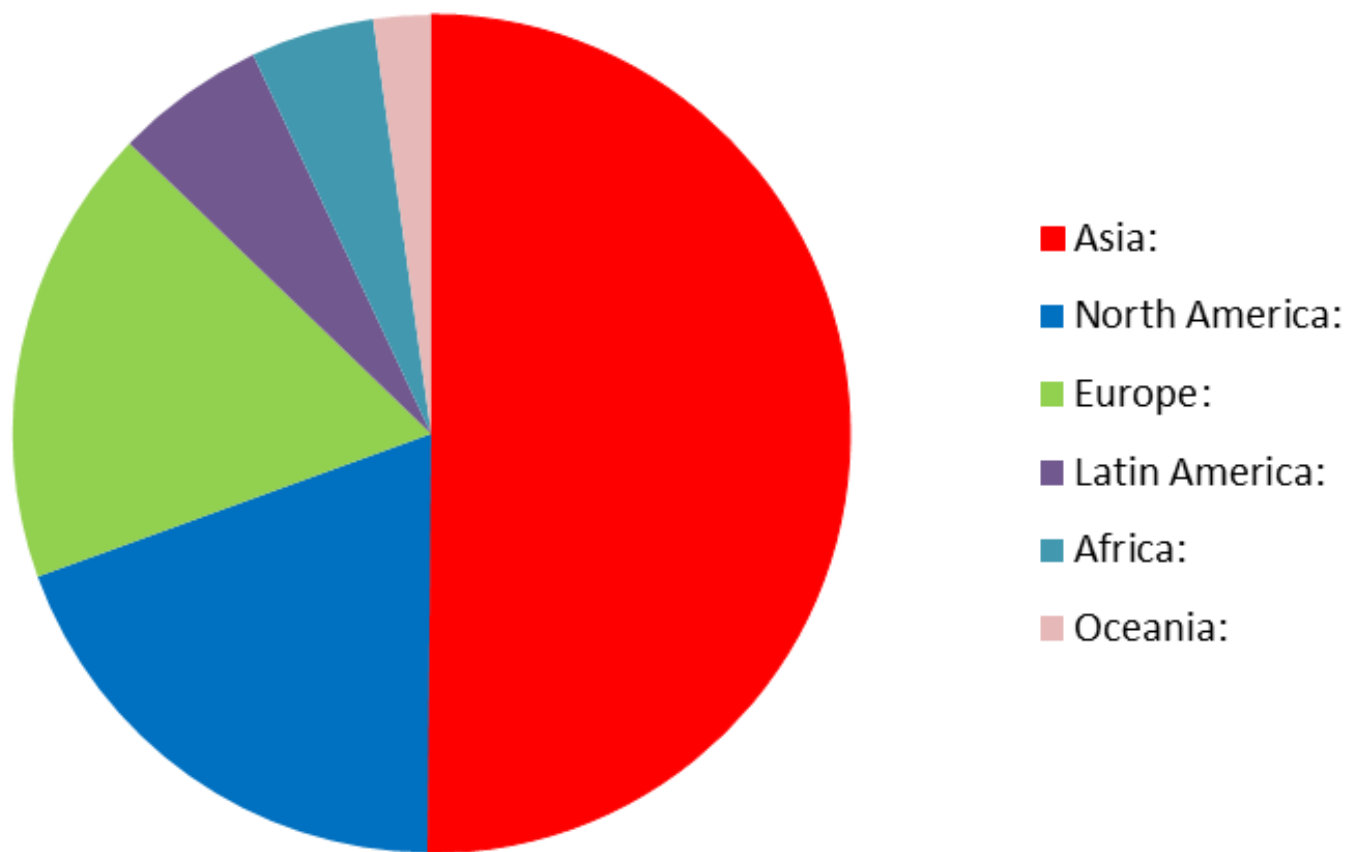
# Trade balance

Partner Name	Trade Balance (US\$ Thousand)	Export (US\$ Thousand)	Import (US\$ Thousand)
World	509716483,7	2097637172	1587920688
East Asia & Pacific	216280634,4	820846549,6	604565915,2
Europe & Central Asia	121020115,9	423479174,5	302459058,5
North America	259763119,7	413220160,9	153457041,2
United States	250557626,4	385677759,4	135120133,1
Hong Kong, China	270550994,8	287251662	16700667,26
Japan	-16402201,09	129268487,4	145670688,5
Middle East & North Africa	35839118,67	123331681,5	87492562,85
Latin America & Caribbean	10720424,97	113116468,6	102396043,6
South Asia	80993371,83	95840241,74	14846869,92
Korea, Rep.	-65267427,83	93707103,46	158974531,3
Germany	-20894999,15	65214030,65	86109029,8
Sub-Saharan Africa	9807549,71	64069550,85	54262001,14
Vietnam	23922492,96	61094096,78	37171603,83
India	46633635,33	58397760,57	11764125,24
Netherlands	47637411,95	57447210,22	9809798,27
United Kingdom	36982629,52	55664076,1	18681446,58
Singapore	18481704,15	44495953,06	26014248,91
Other Asia, nes	-98619632,57	40227594,04	138847226,6
Malaysia	-11609469,14	37660167,39	49269636,53
Russian Federation	5079453,18	37339600,74	32260147,55
Australia	-33612516,15	37282496,55	70895012,7
Thailand	-1349611,64	37182731,17	38532342,81
Mexico	22031915,67	32356651,52	10324735,85
Indonesia	10703458,38	32117494,75	21414036,37
United Arab Emirates	20072592,99	30066955,63	9994362,64

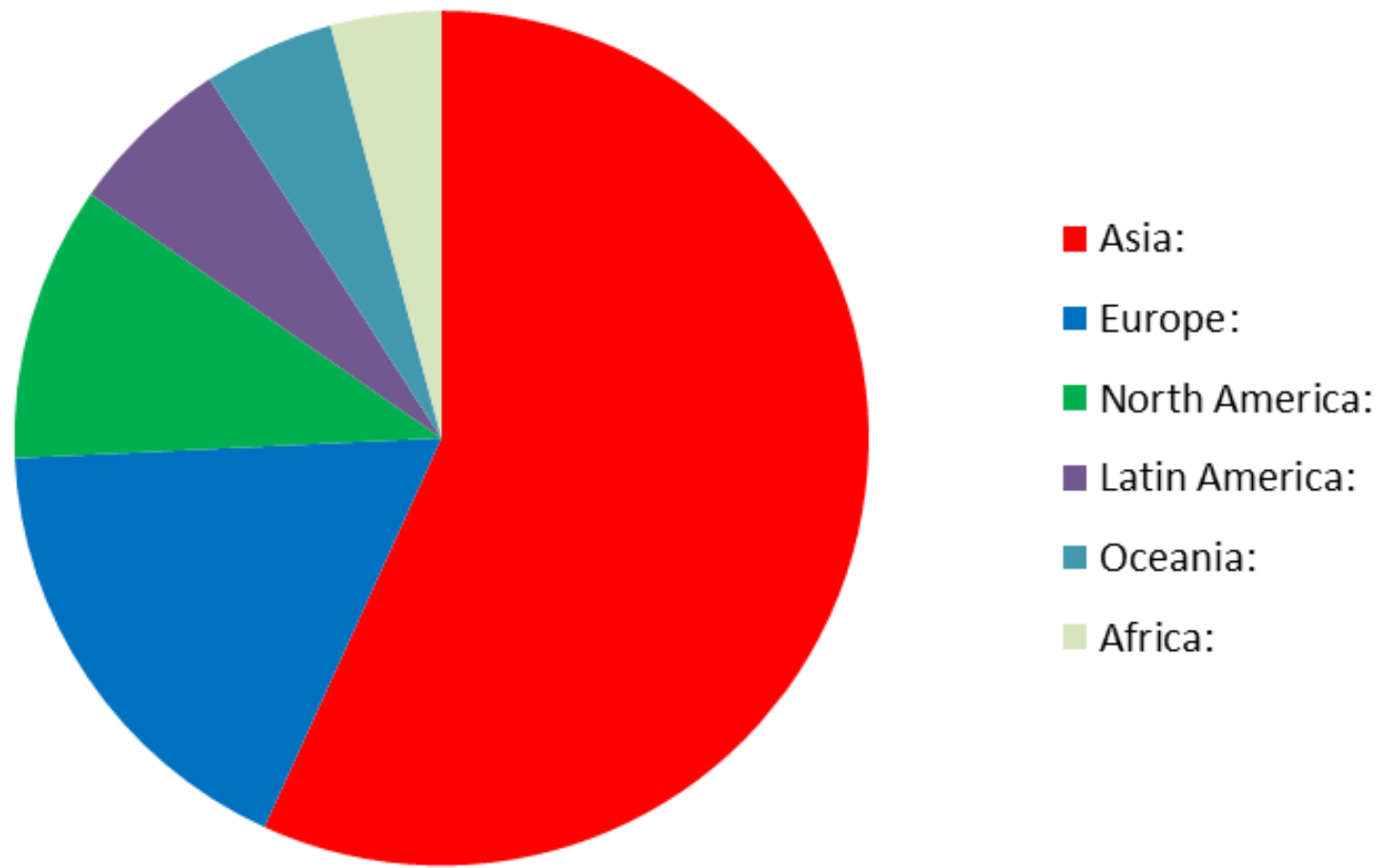
# trade balance with China



# China Export



# China Import





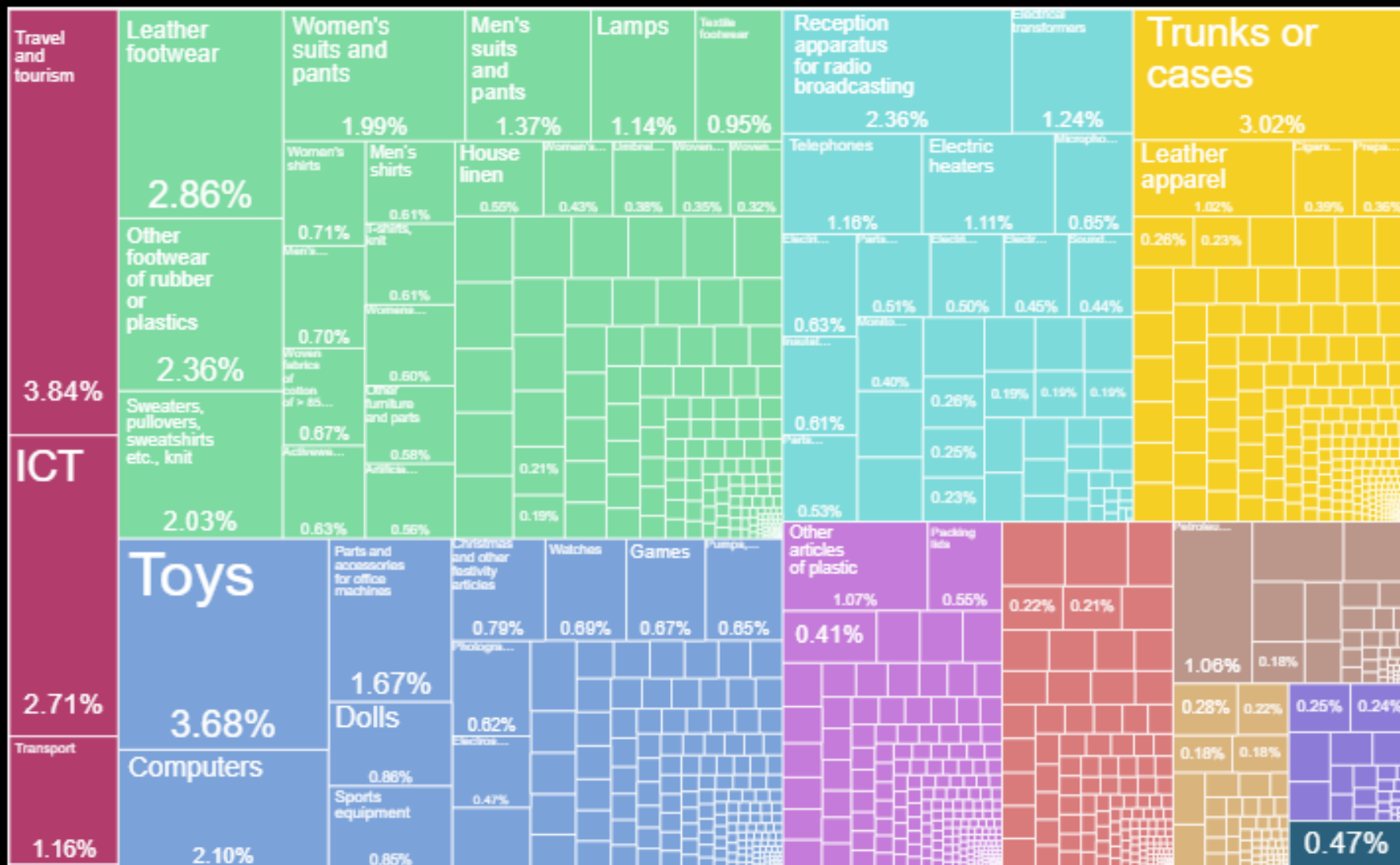
## How is important china as a final market (2014)

Region	Percentage
<a href="#"><u>Mongolia</u></a>	95.3%
<a href="#"><u>Sierra Leone</u></a>	80.0%
<a href="#"><u>Turkmenistan</u></a>	69.7%
<a href="#"><u>Myanmar</u></a>	63.0%
<a href="#"><u>Solomon Islands</u></a>	62.9%
<a href="#"><u>North Korea</u></a>	54.9%
<a href="#"><u>Hong Kong</u></a>	53.9%
<a href="#"><u>Congo</u></a>	52.0%
<a href="#"><u>Angola</u></a>	48.1%
<a href="#"><u>Mauritania</u></a>	45.3%
<a href="#"><u>Oman</u></a>	43.0%
<a href="#"><u>Democratic Republic of the Congo</u></a>	39.3%
<a href="#"><u>Mozambique</u></a>	28.8%

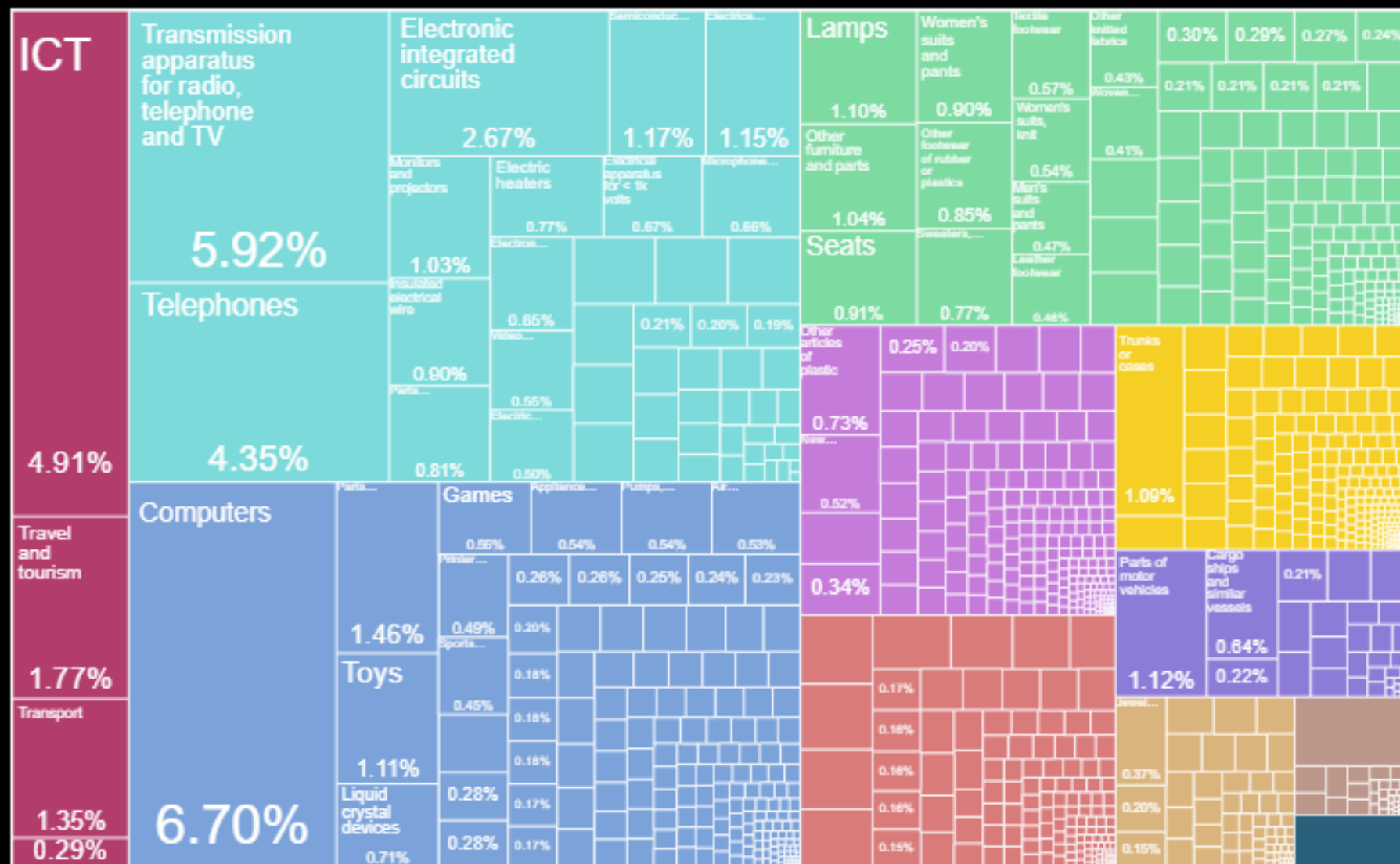
## Importance of China as a supplier (2014)

<a href="#"><u>North Korea</u></a>	79.3%
<a href="#"><u>Kyrgyzstan</u></a>	54.4%
<a href="#"><u>Hong Kong</u></a>	47.1%
<a href="#"><u>Tajikistan</u></a>	46.6%
<a href="#"><u>Burma</u></a>	42.4%
<a href="#"><u>Mongolia</u></a>	41.5%
<a href="#"><u>Macau</u></a>	33.2%
<a href="#"><u>Vanuatu</u></a>	32.0%
<a href="#"><u>Gambia</u></a>	31.3%
<a href="#"><u>Vietnam</u></a>	30.4%
<a href="#"><u>Benin</u></a>	30.2%
<a href="#"><u>Djibouti</u></a>	29.3%

# China export 1996

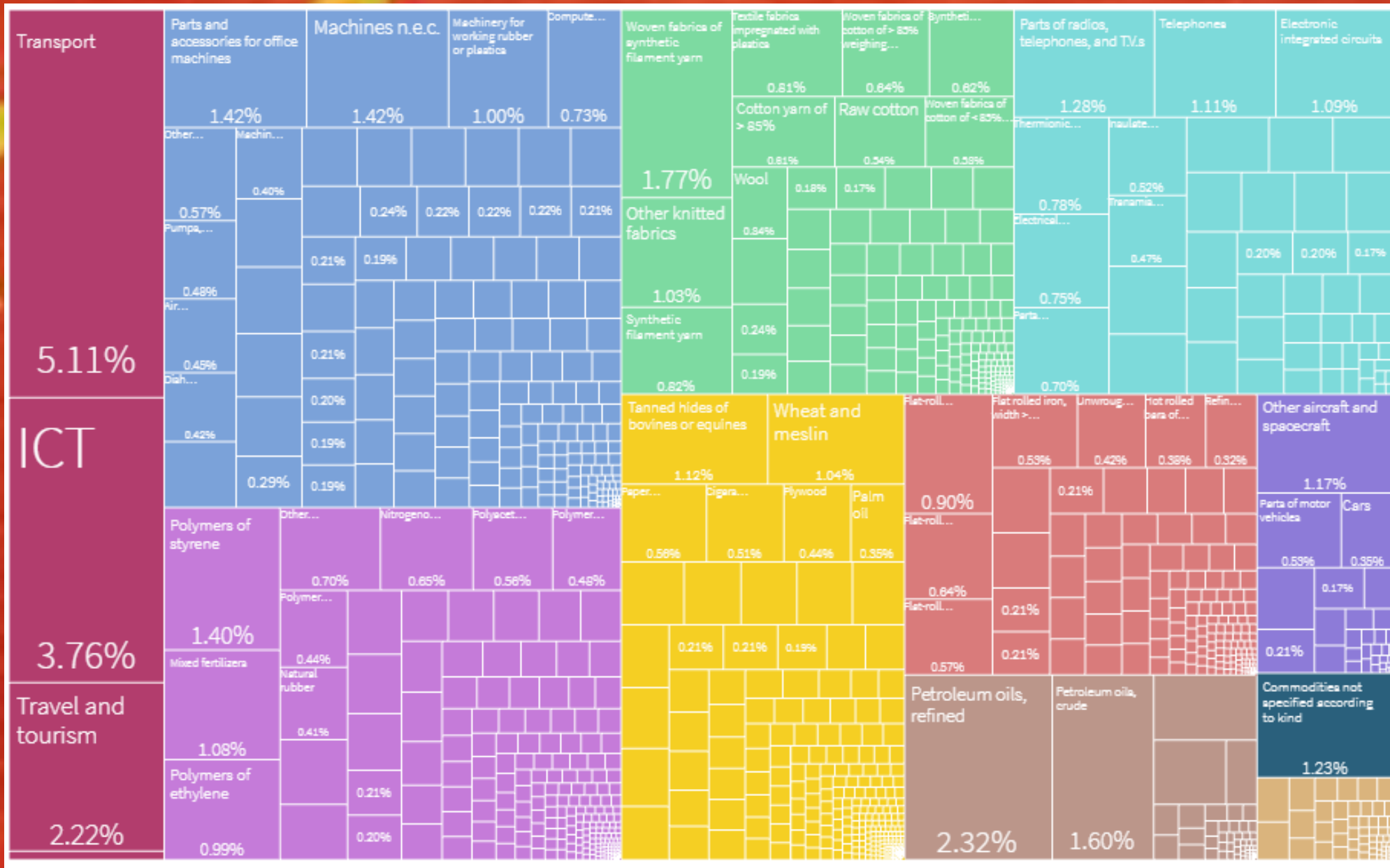


# China export 2016



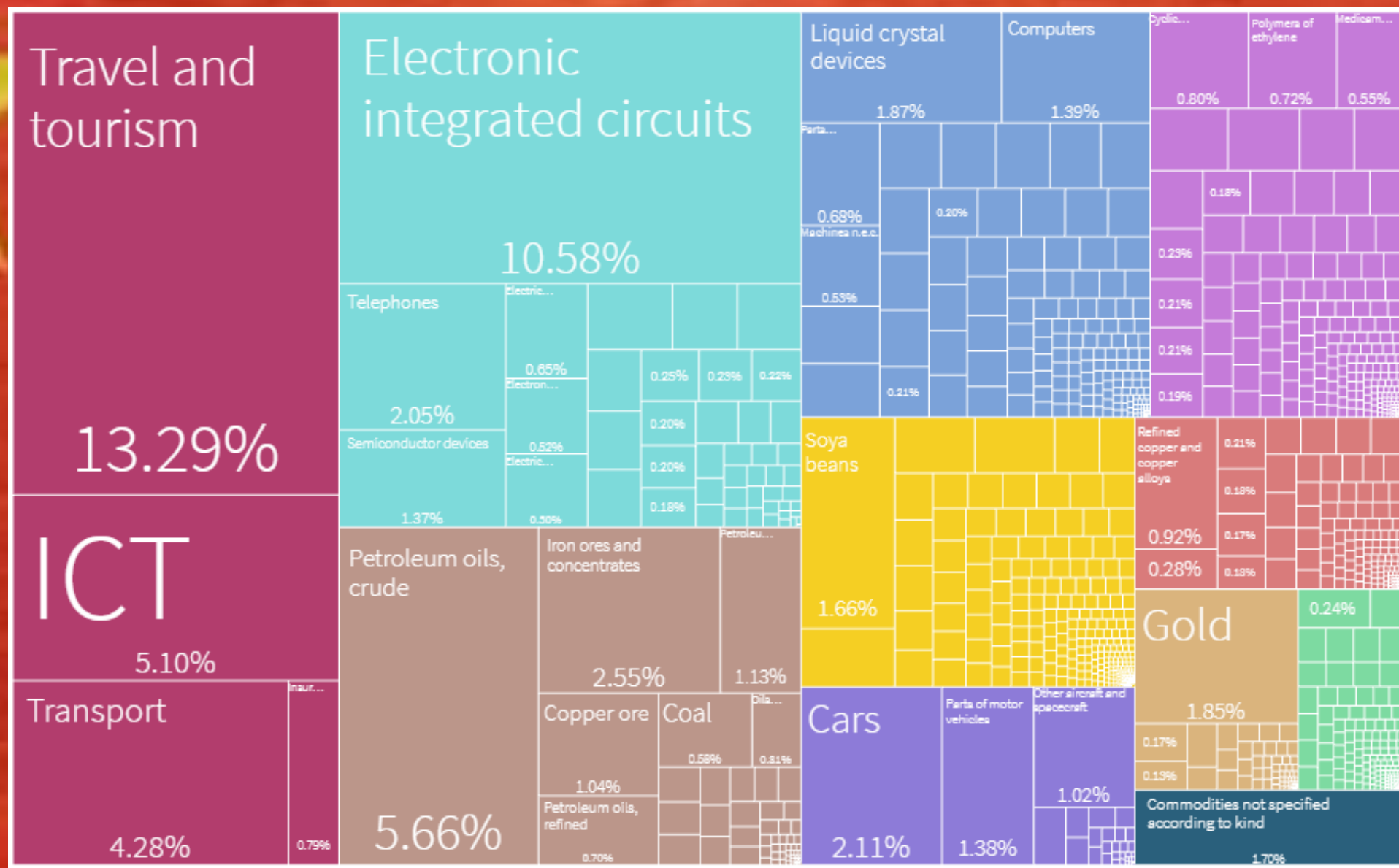


# China Import 1996

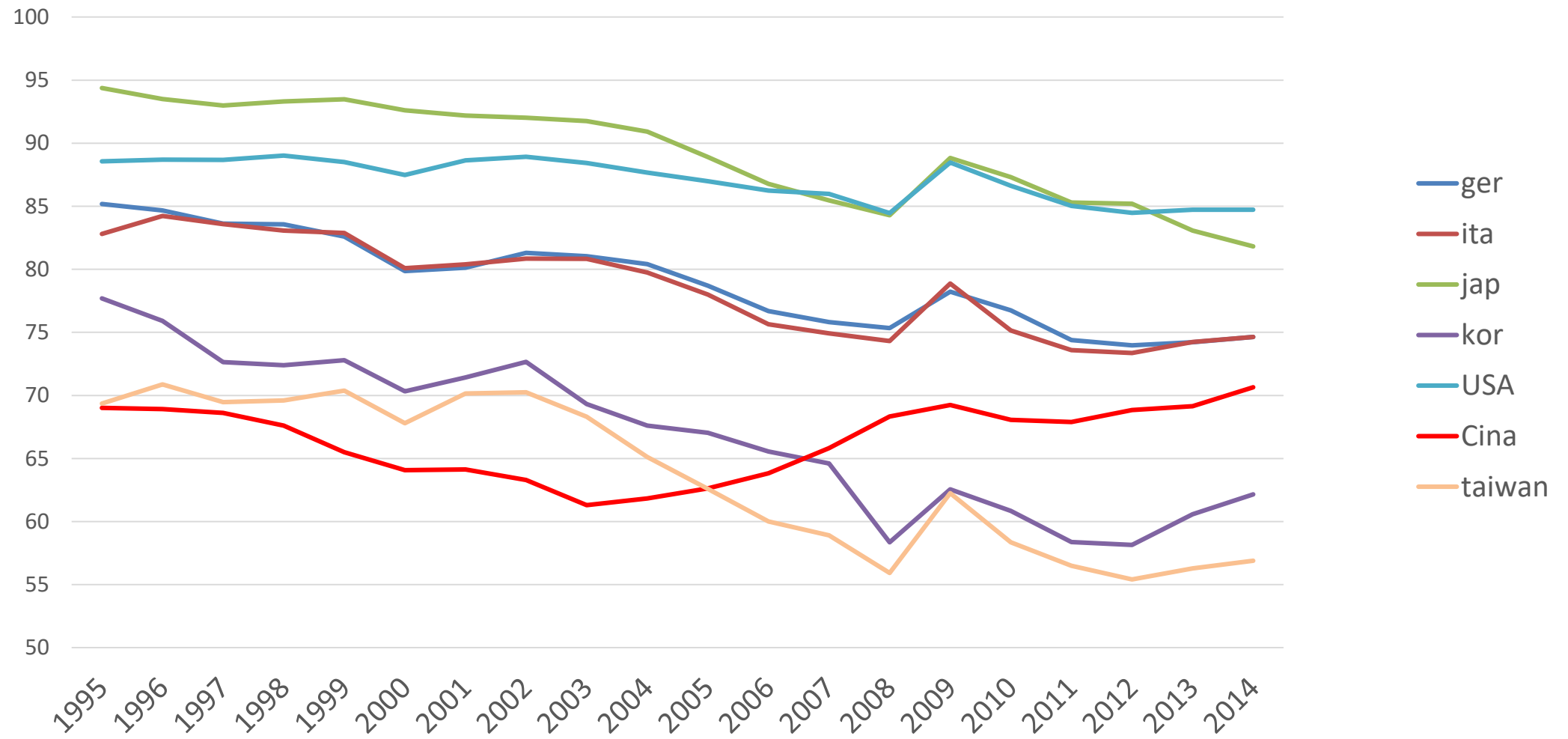


This treemap illustrates the composition of China's imports in 2016. The largest category is 'Travel and tourism' at 13.29%, followed by 'Electronic integrated circuits' at 10.58%. Other significant categories include 'ICT' (5.10%), 'Transport' (4.28%), and 'Petroleum oils, crude' (5.66%). The chart is color-coded by category: purple for services (Travel, ICT, Transport), teal for electronics, blue for machinery and transport vehicles, yellow for agricultural products, brown for minerals and fuels, and green for metals and gold.

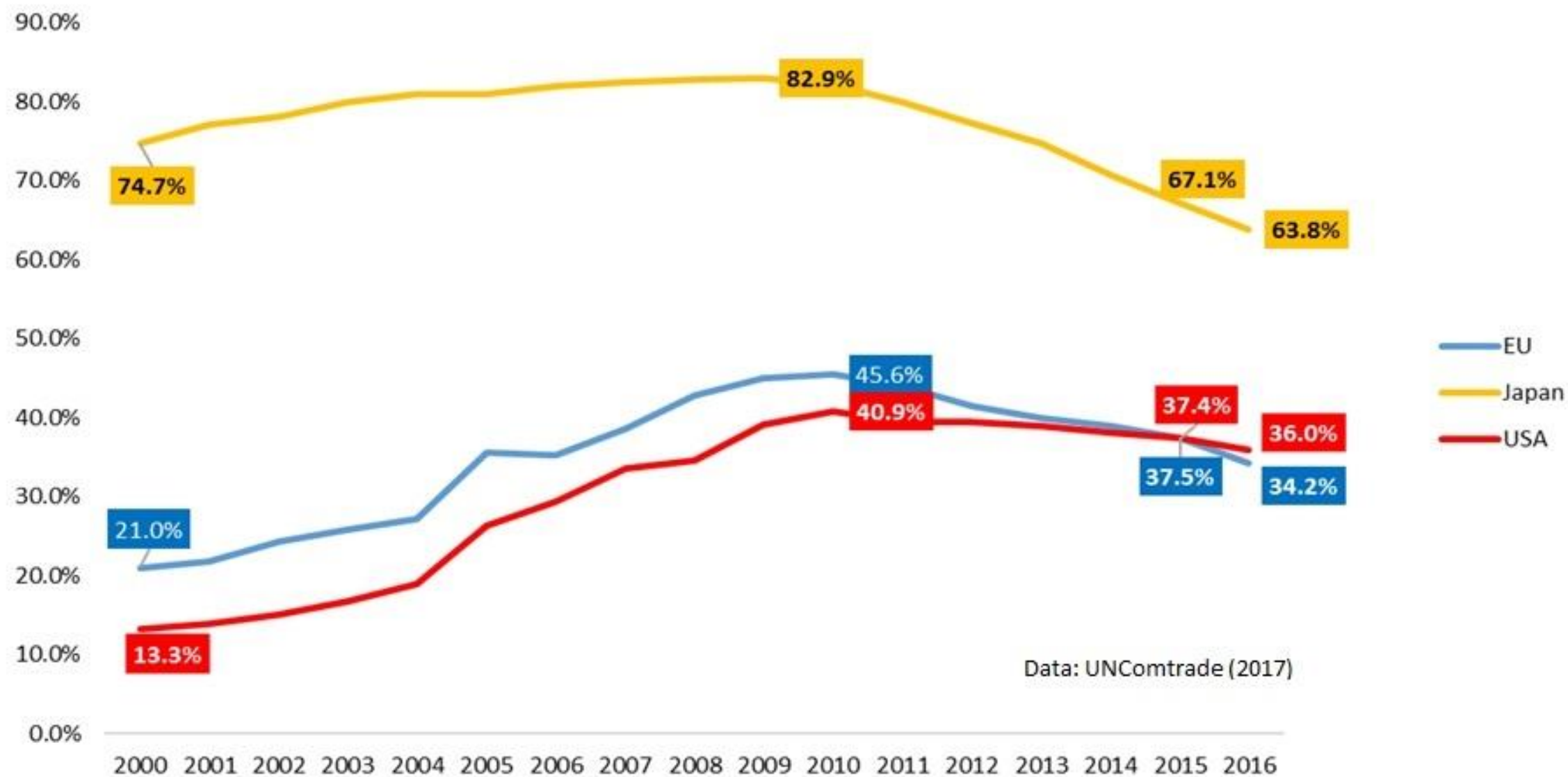
Category	Percentage
Travel and tourism	13.29%
Electronic integrated circuits	10.58%
ICT	5.10%
Transport	4.28%
Petroleum oils, crude	5.66%
Gold	1.85%
Cars	2.11%
Commodities not specified according to kind	1.70%
Soya beans	1.66%
Coal	1.04%
Other aircraft and spacecraft	1.02%
Refined copper and copper alloys	0.92%
Liquid crystal devices	1.87%
Computers	1.39%
Telephones	2.05%
Semiconductor devices	1.37%
Iron ores and concentrates	2.55%
Parts of motor vehicles	1.38%
Medicaments	0.55%
Polymers of ethylene	0.72%
Cycle...	0.80%
Refined copper and copper alloys	0.28%
Gold	0.24%
Commodities not specified according to kind	0.17%
Other aircraft and spacecraft	0.102%
Parts of motor vehicles	0.138%
Cars	0.211%
Soya beans	0.166%
Liquid crystal devices	0.187%
Computers	0.139%
Telephones	0.205%
Semiconductor devices	0.137%
Iron ores and concentrates	0.255%
Parts of motor vehicles	0.138%
Cars	0.211%
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Parts of motor vehicles	



## domestic added value on export



## China's Market Shares in Leading Apparel Import Markets (by value)





**Table 16.4**

Regional shares of China's exports.

	1978	1995	2005	2010	2016
Southeast	16%	45%	36%	34%	36%
Lower Yangtze	35%	21%	38%	42%	37%
Northeast / North Coast	40%	22%	18%	17%	15%
Rest of China	9%	11%	7%	8%	13%

Source: *SYC* (2016, table 11-9); *SAC* (2017, 96).

Southeast: Guangdong, Fujian, and Hainan.

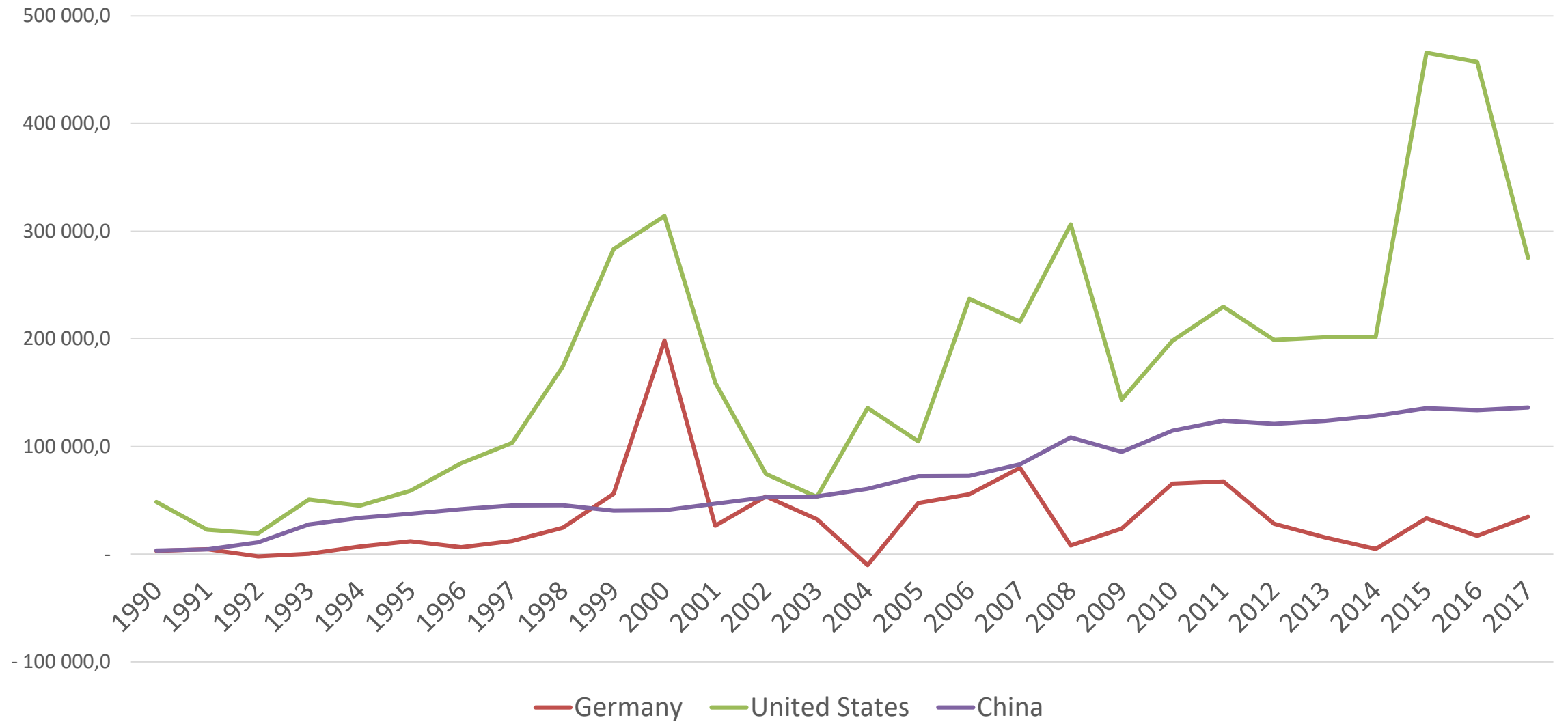
Lower Yangtze: Shanghai, Jiangsu, and Zhejiang.

Northeast/North Coast: Shandong, Beijing, Tianjin, Hebei, Liaoning, Jilin, and Heilongjiang.

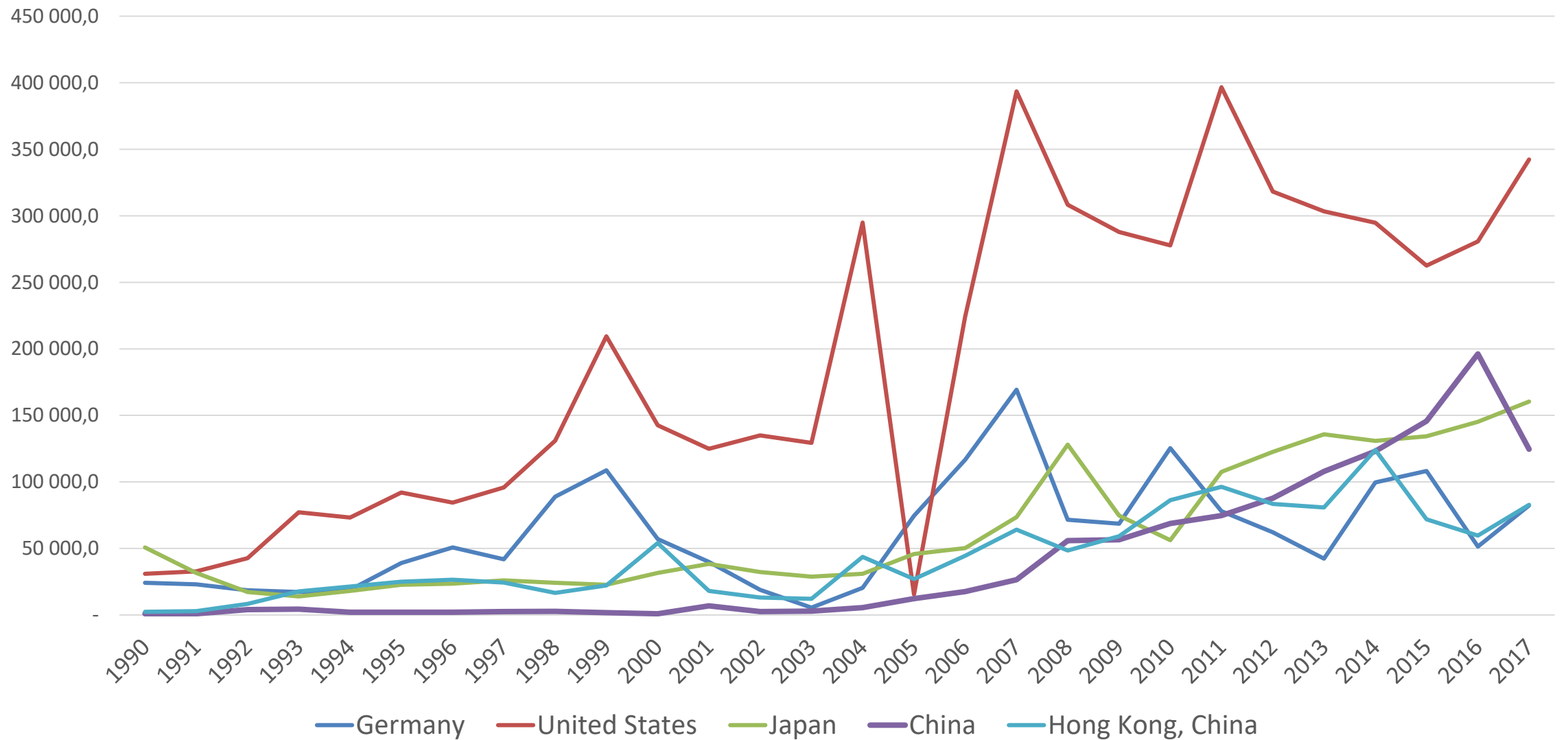


FDI

## Inward FDI

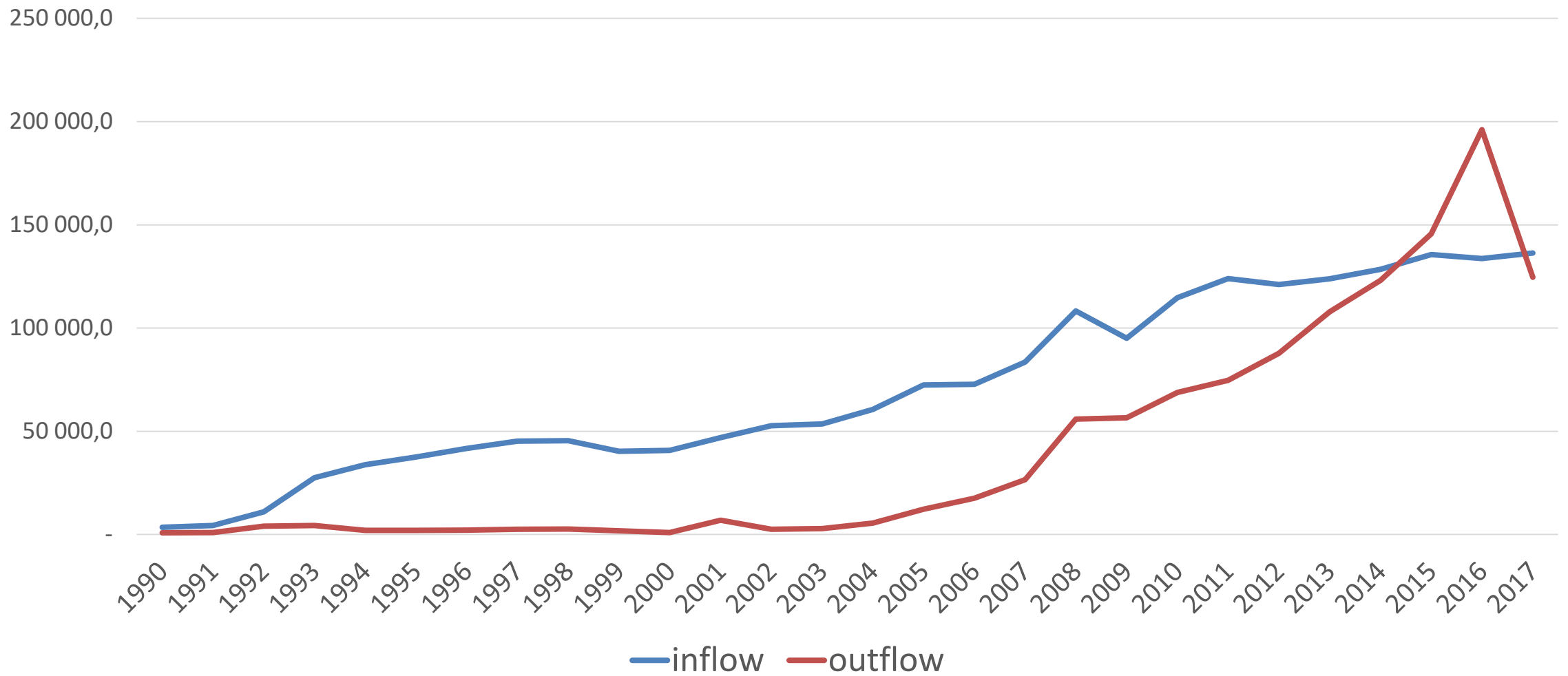


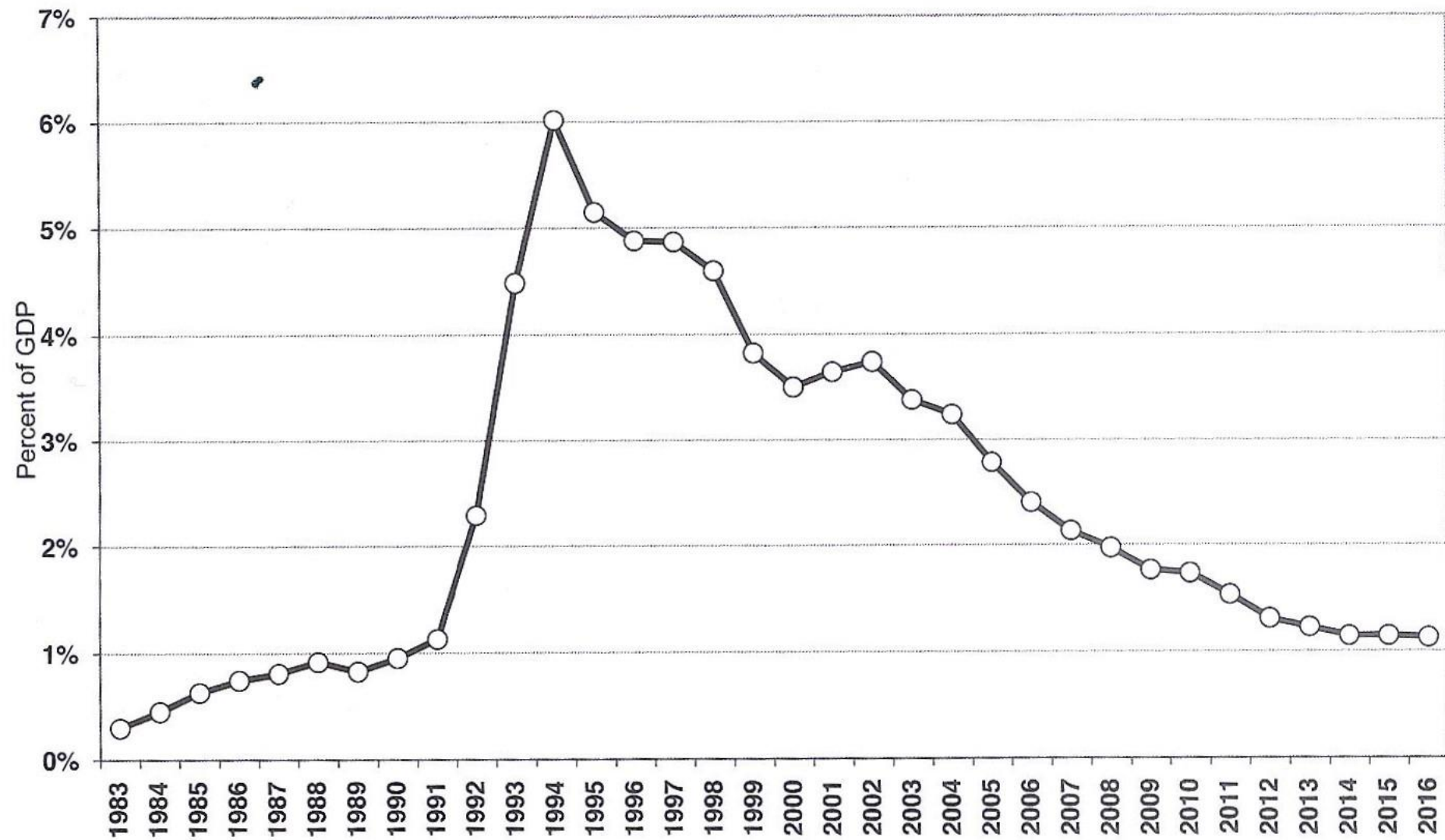
# OFDI





# China FDI





**Figure 17.1**

Foreign direct investment (share of GDP).

Source: *SYC* (2016, table 11-13; and earlier volumes).

# Inward Fdi in China

- 10% of non agricultural labor force (24 m)
- 60/70% of export (and large part of Imports)
- 20% of Industrial add value
- More capital and technology intensive

★ For foreign firms

## **Catalog for the Guidance of Foreign Invested Enterprises**

Investments are:

- encouraged
- permitted
- restricted
- prohibited



# Special Economic Zones

- Crucial in a dual economy
- Important to experiment policies
- Instrument to boost export and protect domestic market
- Opportunity also for Chinese firms
- Also a symbolic role
- Shenzhen, Zhuhai, Shantou et Xiamen plus Hainan (1988)
- 16 Open Coastal Cities, 1984
- 288 Open Coastal Cities, 1988
- Limited success till 90ies due to corruption, non-efficient FDI, price distortions, yuan overvalued, poor technologies.



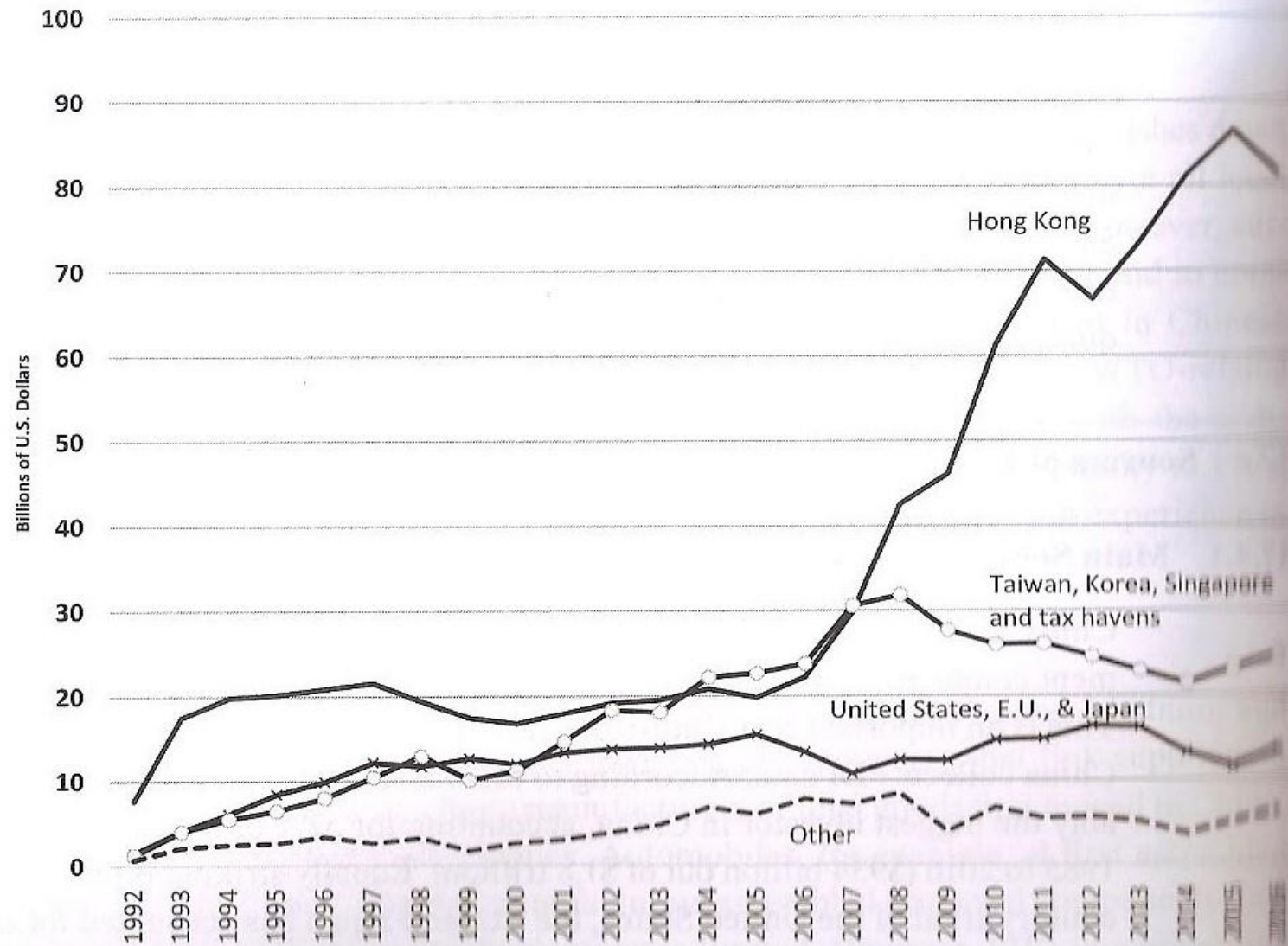
## Impact of FDI

- Source of saving and investment (not very important in China but still....)
- Contribution to trade
- Technology transfer
- Competition and emulation
- Spillovers and upgrading

# SEZ

- Tax concessions (till 2012)
- Better services and infrastructures
- Cheap land and wages at the beginning (today the opposite)
- Test new policies (es. In Shenzhen first test of flexible salary and incentives)

# Fdi for country of origin



**Figure 17.2**  
Main FDI source regions,



# Sectoral composition of FDI

- Manufacturing till 2010 (70% in 2005)
- After 2010 more and more services (in 2015 manufacturing only 38%)
- Services still low compared the rest of the world
- China made a commitment to open domestic service market but still a long journey to do.



## Why OFDI

- Natural resources
- Market seeking
- Technology seeking
- Brand seeking
- Diversification
- (looking for lower costs)
- (foreign reserve – CIC)



## To do OFDI

- Company may need authorization from:
- Pre-Report to MOFCOM (Ministry of Commerce),
- SAFE (State Administration of Foreign Exchange)
- NDRC (National Development and Reform Commission).  
Receive “Investment Certificate” and “Travel Pass” in order to participate in a bid for a foreign company
- SASAC (State-owned Assets Supervision and Administration Commission, only for State-owned enterprises (SOEs)
  - **Anti-trust approval** (when needed)

# OFDI

- Once the firm proposed OFDI is in line with NDRC policies and in general with the Go Global policy, NDRC approval guarantee an easier access to financial support if needed (mainly from China Exim and China Development Bank).
- Central Govern (and sometime provincial Governs can support specific OFDI project also in other fields (for example helping Chinese workers to expatriate and work for Chinese firms involved in OFDI
- OFDI, Grants, Loans, Trade, Migrations have to be seen together. These strategies lowers costs and firms risks

## Where: OFDI

- Hong Kong (but only a bus stop...)
- US but going down from 2015
- Australia
- Canada



# Urban rural equilibria

- Urban e rural areas had different governance structure since the 50ies
- Almost two different form of citizenship
- Till 90ies almost impossible to move from rural to urban areas
- From the 90ies a bit easier but still need to be authorised (Hukou system)
- Even with this limitations urbanization has been a crucial part of China development

# Before 1978

## Urban

- Urban resident organized in Danwei (work unit)
- Danwei in top down Hierarchy and subject to plan
- Danwei guarantees social benefits
- Relative well-off

- Rural
- Village residents became members of the Communes
- Bottom up approach
- Collectives had to support social benefits (only if they had extra resources on top of the plan)
- Very poor



# Urban Danwei

- Job security
- Guaranteed low-price access to food grains and other commodities
- Health care (40% of general hospital beds where in State Owned industrial system)
- Pension and health care
- Primary and secondary education (70% of Soes run schools)
- Low cost housing provided by the work unit

## ★ Rural Collectives

- Villages were and are not integrated in the hierarchical System with the central state
- Villages have local councils and “elect” local leaders (but important decisions have to be approved by the party at a higher level)
- Collectives could tax themselves for services but rural residents were much more likely to pay full costs

# Urbanization

- China “deurbanized” from 1949 to 1978
- Urbanization started very fast since then
- In 2016 there were 793 million people living in urban area but only 570 million had a urban hukou
- Urbanisation is both people moving but also land changing status and this is very delicate issue

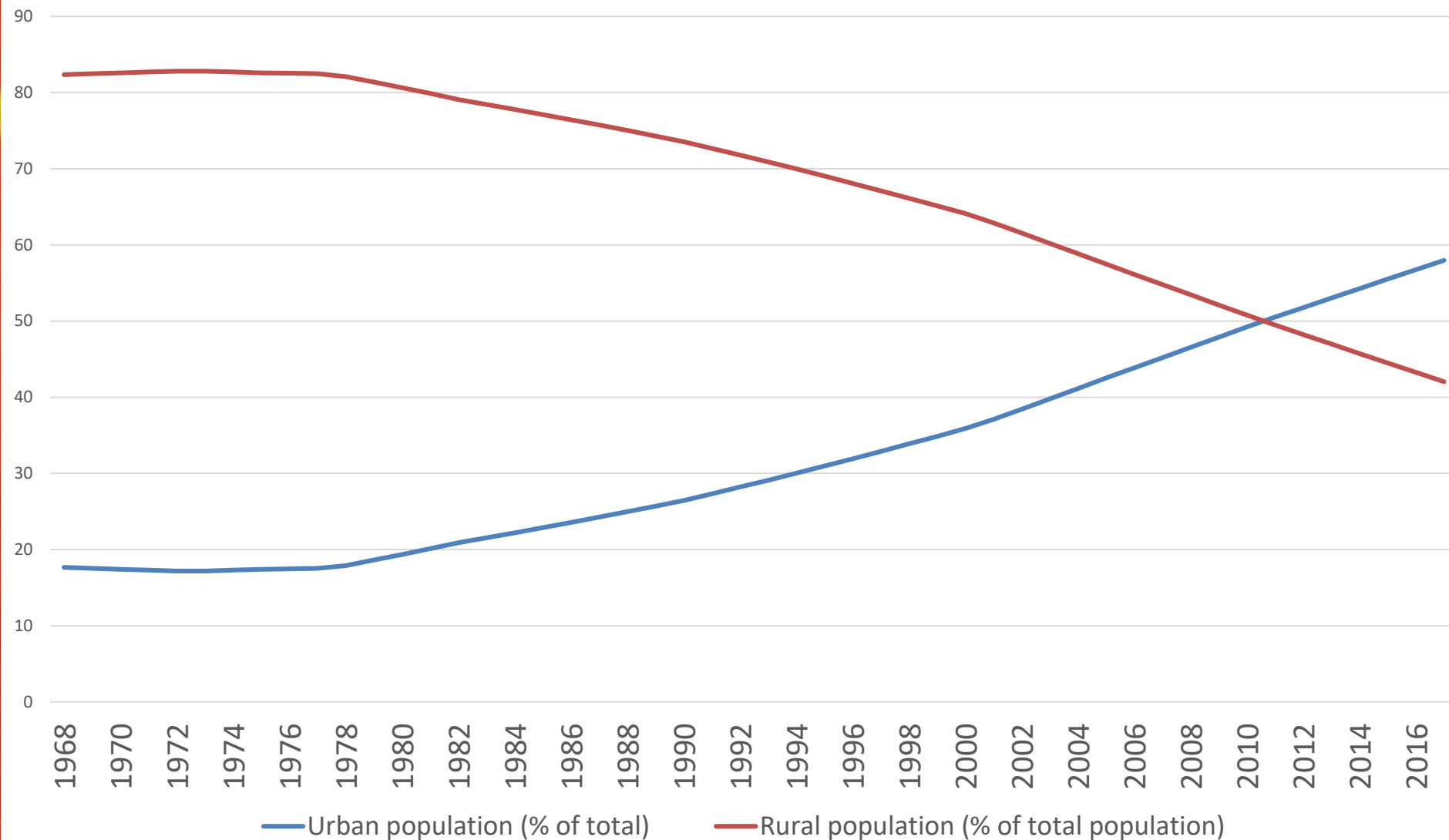
## Urban Rural

Year	Grouped by Urban and Rural Areas		
	Urban Areas	Rural Areas	Urban/Rural
1949	57650000	484020000	0,11910665
1979	184950000	790470000	0,23397472
1989	295400000	831640000	0,35520177
2001	480640000	795630000	0,6040999
2010	665570000	674140000	0,98728751

2012 urban/rural 1 to 1



# Urban and rural population (%)



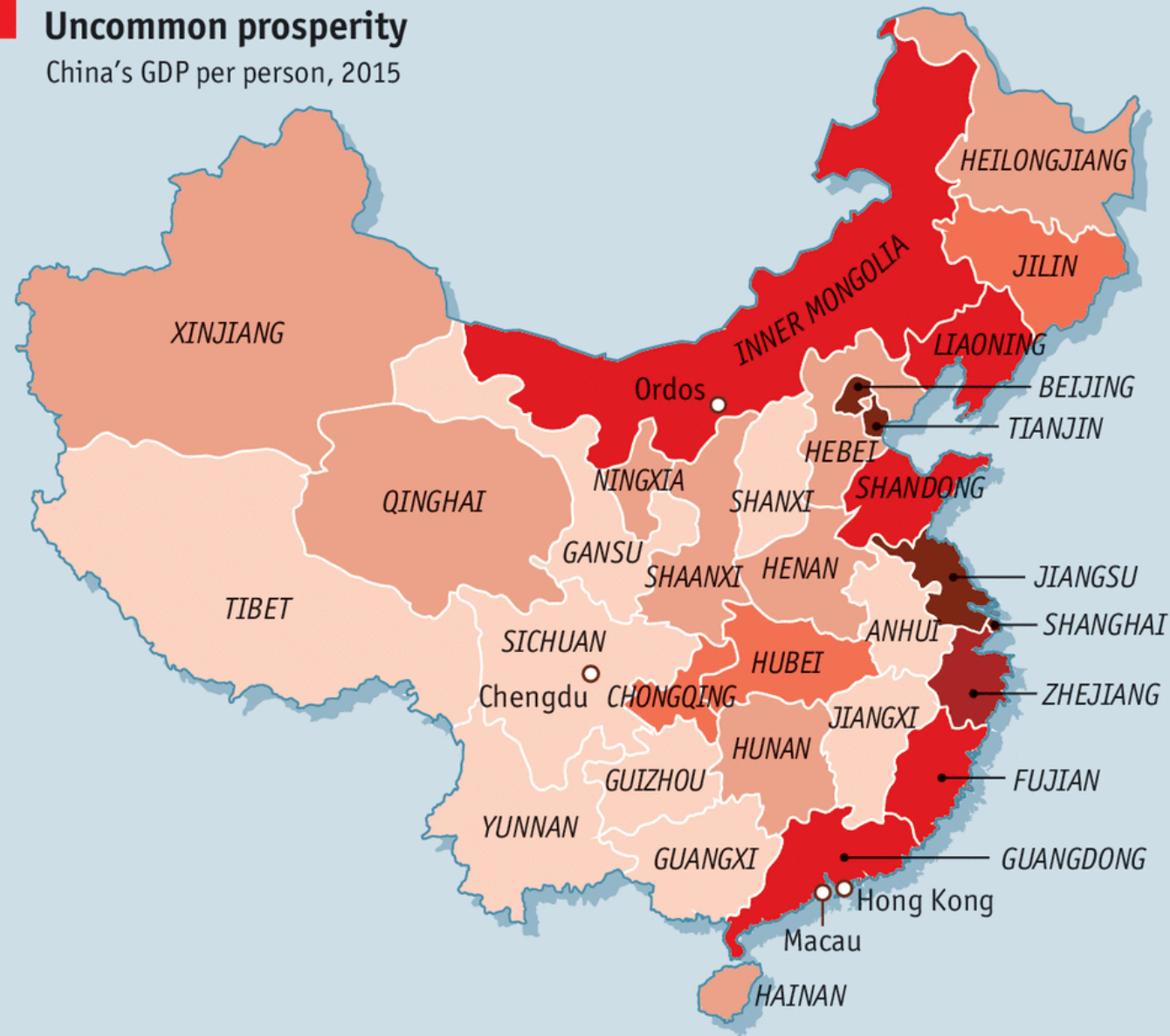


# Urban and rural population

Country Name	Series Name	1968	1978	1988	1998	2008	2017
China	Urban population	17,656	17,9	24,974	33,867	46,539	57,96
China	Rural population	82,344	82,1	75,026	66,133	53,461	42,04
Italy	Urban population	63,309	66,243	66,766	67,102	68,092	70,144
Italy	Rural population	36,691	33,757	33,234	32,898	31,908	29,856
Germany	Urban population	72,147	72,73	72,999	74,551	76,575	77,261
Germany	Rural population	27,853	27,27	27,001	25,449	23,425	22,739
United States	Urban population	72,974	73,682	74,942	78,377	80,438	82,058
United States	Rural population	27,026	26,318	25,058	21,623	19,562	17,942

## Uncommon prosperity

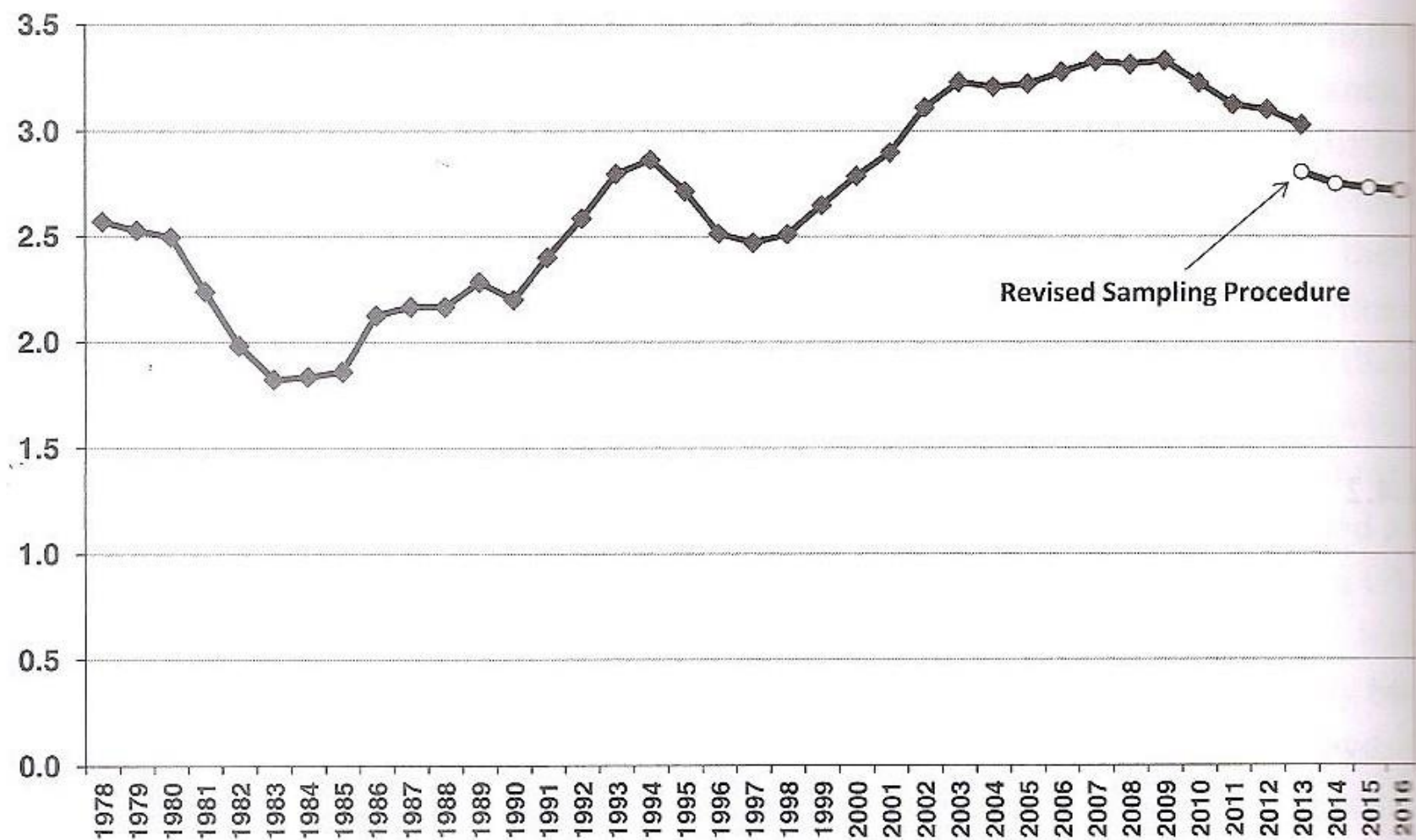
China's GDP per person, 2015



\$'000

- Over 14
- 12-14
- 10-12
- 8-10
- 6-8
- Under 6

Sources: CEIC;  
World Bank



**Figure 6.3**  
Ratio of urban to rural per capita incomes (1978–2016).  
Source: *SYC* (various years).



# From 2003 to close the gap

- Rural taxes heavily reduced
- After Wto entry subsidy for grain farmers
- More budgetary expenditures for education and health
- Encouraging migration (better services for migrants in rural areas)
- 2020 the goal is to give to 100 million migrant a urban hukou
- Strengthening of farmer property right (land contract for 30 years – redistribution discouraged)
- Large part or rural area declared “permanent agricultural land” (cannot be sold for other purposes), but these new contracts can be leased (no risk to lose your land if you migrate as it was before)



## Recently

- Relaxation of Hukou in small cities (under 1 million inhabitants)
- Eliminate restrictions but “carefully and appropriately in cities between 1 and 5 million inhabitants
- 16 cities above 5 million inhabitants adopt a “point System”.  
Already in place in Beijing, Shanghai and Guangzhou

The background of the slide is the flag of the European Union, featuring a blue field with twelve gold stars arranged in a circle. The text "Fiscal reform" is written in white, bold, sans-serif font, centered horizontally and positioned in the lower half of the image.

**Fiscal reform**

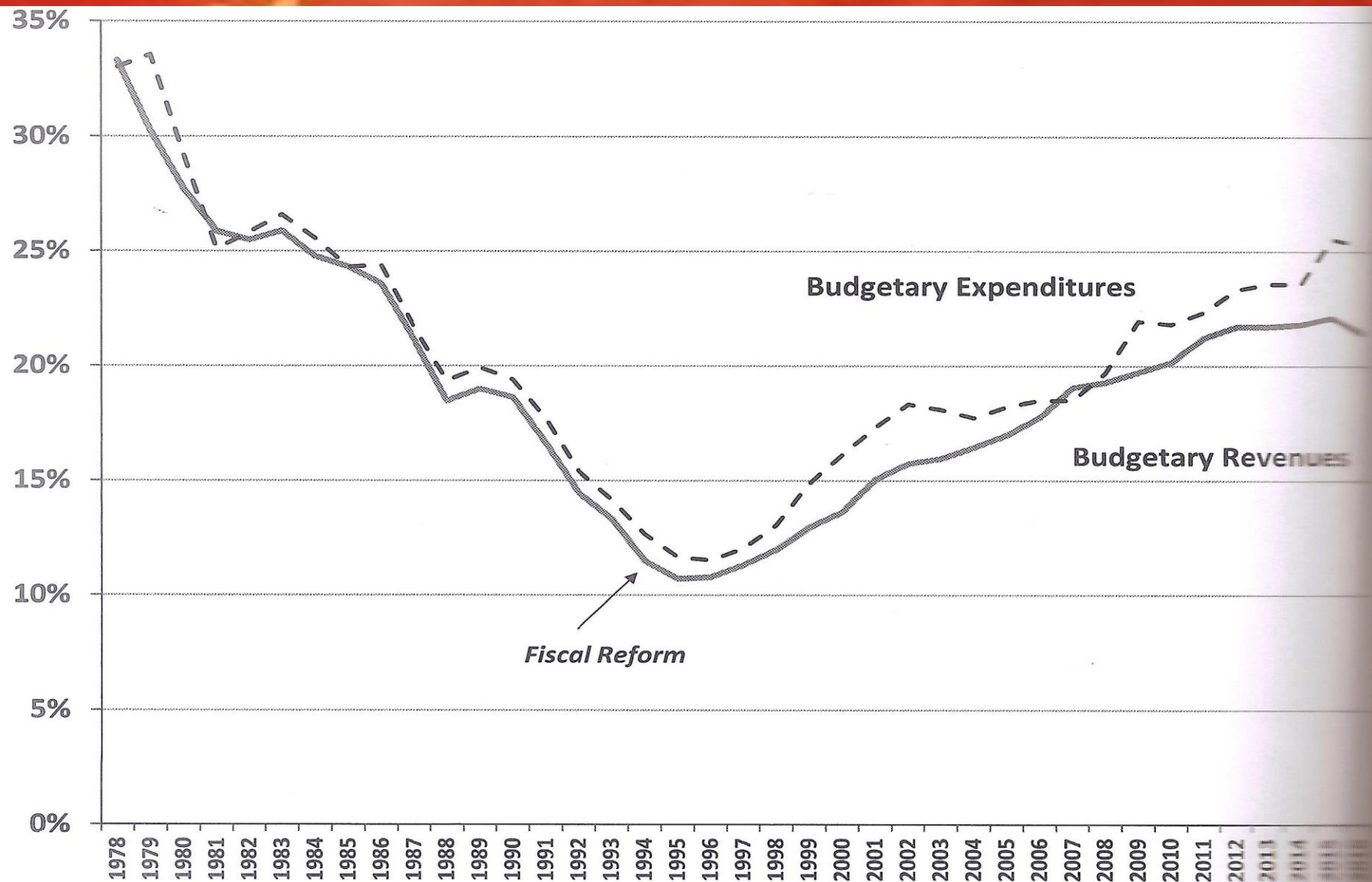


Figure 20.1  
Budget share of GDP.  
Source: SAC (2017, 69).

# Revenue and taxation

## Macroeconomics and Finance

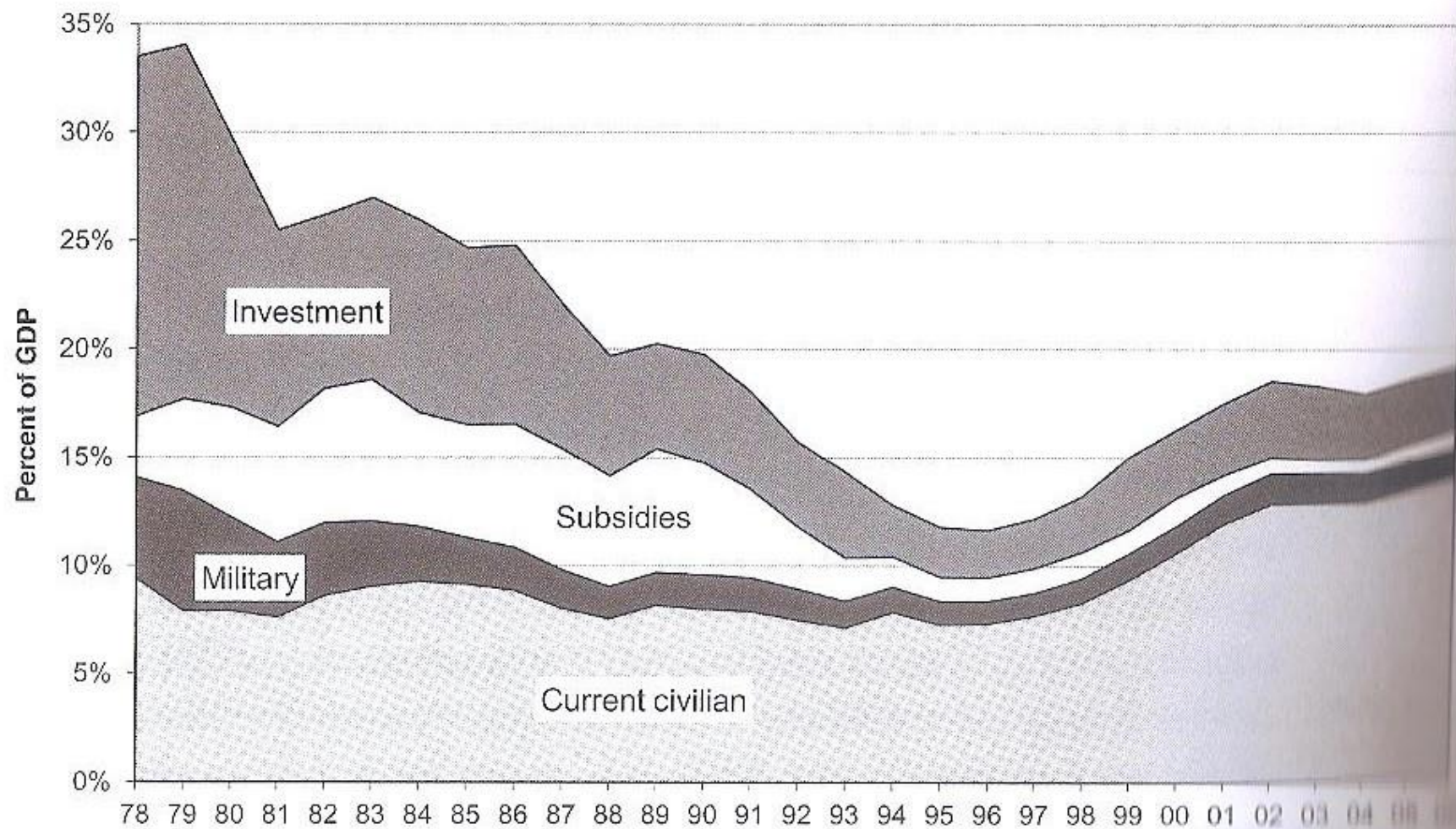
**Table 20.1**  
2014 fiscal revenues by type.

	Percent of total revenues
<b>Tax revenues</b>	<b>85</b>
VAT	22
Other business and service taxes	21
Product and trade taxes	4
Land and resource taxes	10
Stamp and contract duties	4
Profit tax	18
Personal income tax	5
<b>Nontax revenues</b>	<b>15</b>

Source: Ministry of Finance website, [http://yss.mof.gov.cn/2014czys/201507/t20150709\\_1269855.html](http://yss.mof.gov.cn/2014czys/201507/t20150709_1269855.html)



# Types of budgetary outlays



# Expenditure

**Table 20.2**

Budgetary expenditures on social services.

	2006	2012	2016
	Billion RMB (percent of GDP)		
Education	546.4 (2.5%)	2,124.2 (3.9%)	2,805.6 (3.8%)
Health	142.1 (0.6%)	724.5 (1.3%)	1,315.4 (1.8%)
Public housing	n.a.	448.0 (0.8%)	677.6 (0.9%)

Source: Ministry of Finance website, [http://yss.mof.gov.cn/2016js/201707/t20170713\\_2648981.htm](http://yss.mof.gov.cn/2016js/201707/t20170713_2648981.htm)

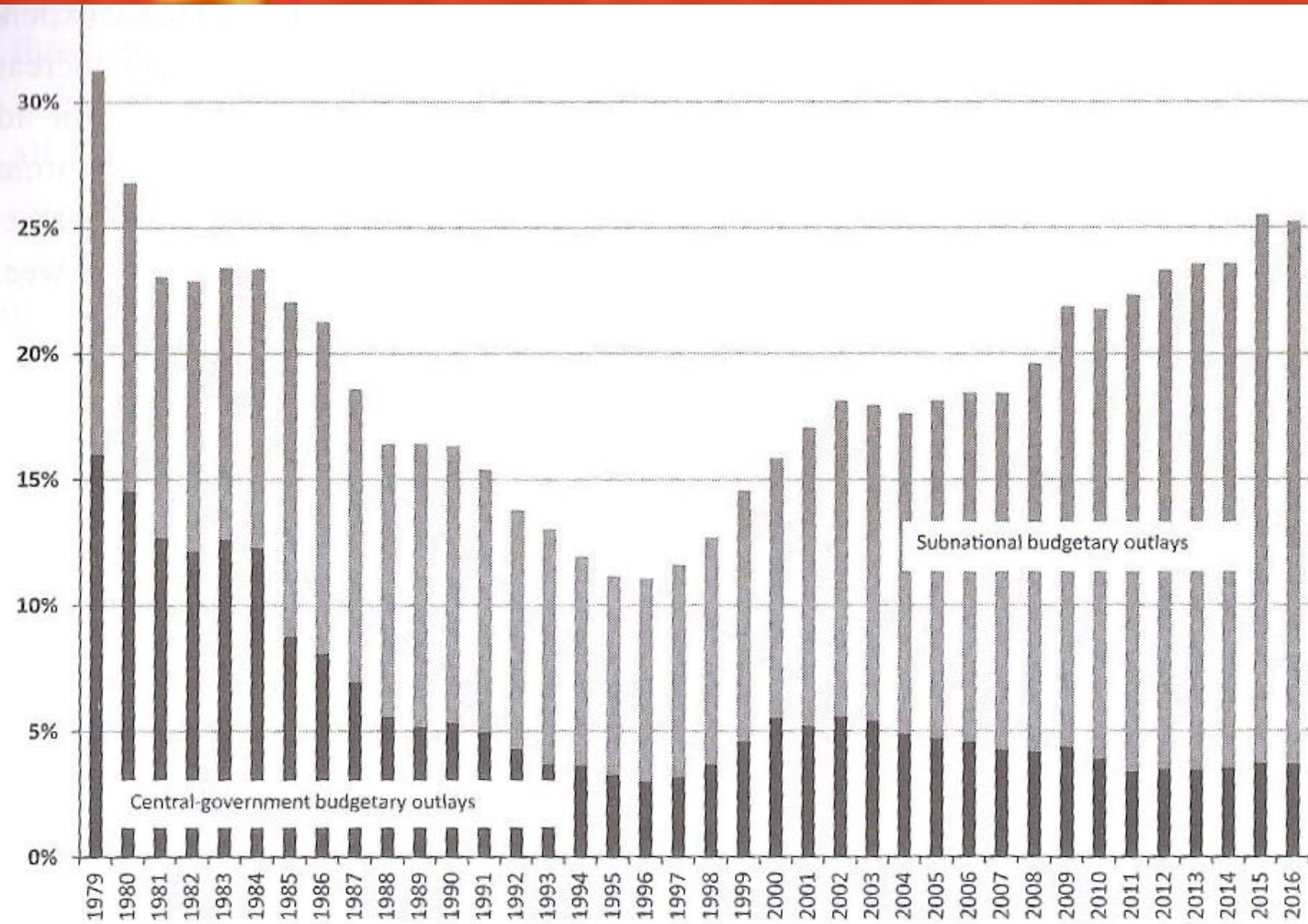


# Center and local

- Nation
- Province
- Prefecture
- County and
- Township

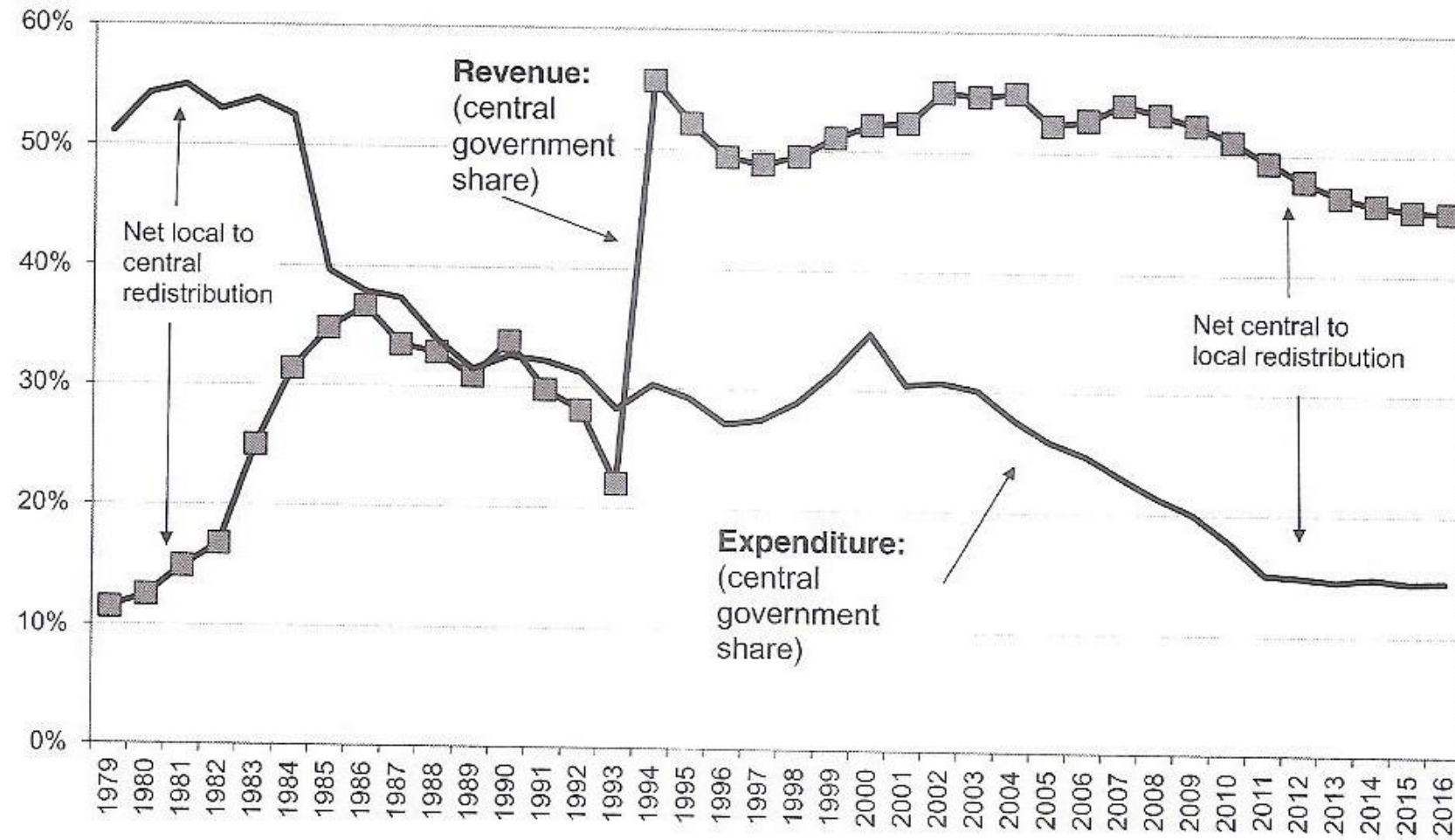
Revenue highly centralized system: all taxes are defined in Beijing

Expenditure highly decentralized: only 15% managed from Beijing



**Figure 20.3**  
Central and local budgetary expenditure (share of GDP).  
Source: SAC (2017, 70).

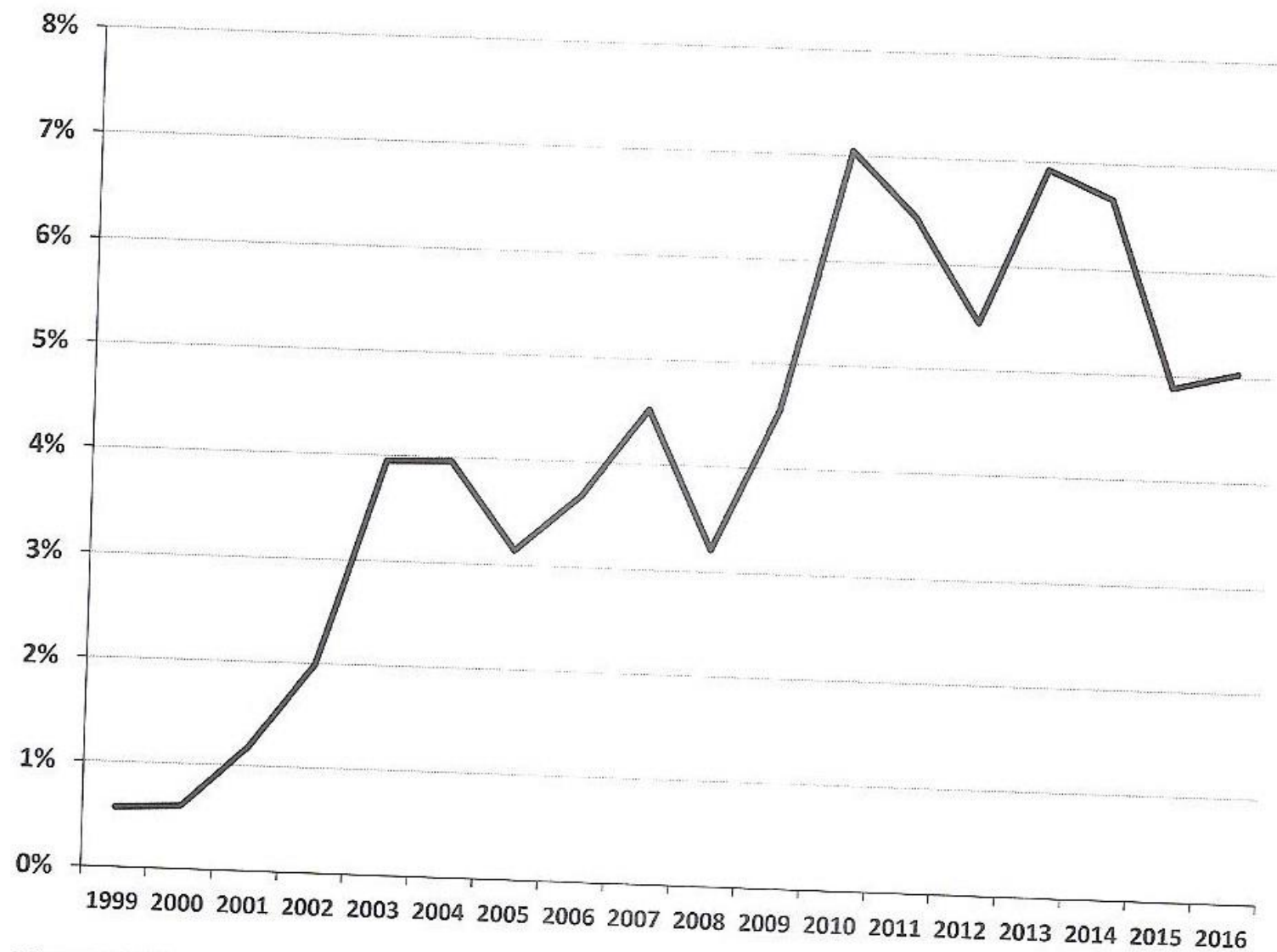




**Figure 20.4**

Central-government share of budgetary revenue and expenditure.

Source: SAC (2017, 70).



**Figure 20.5**

Local-government land revenues (share of GDP).

Sources: Through 2010, Huang (2012); from 2011, Ministry of Finance website, [http://zhs.mof.gov.cn/zhengwuxinxi/zonghexinxi/201604/t20160401\\_1934261.html](http://zhs.mof.gov.cn/zhengwuxinxi/zonghexinxi/201604/t20160401_1934261.html).

# Challenges for the future

## External challenges

- Wto agreements
- Fdi and Ofdi
- Unbalances

## Domestic Challenges

- Central policies vs local policies
- Local policies vs local policies
- Soe/ private firms/ CP patronage
- Private national champions?



The background of the image is the flag of the People's Republic of China, featuring a red field with five golden-yellow stars. One large star is positioned on the left, and four smaller stars are arranged in an arc to its right.

Agriculture



# 1978: slow start, great results

- Third plenum in december 1978: Only two “reforms”
- Increase in agriculture procurement prices
- Reaffirmation of the theoretical right to self management of collectives
- (plus less emphasis in grain first policy)

# Reaffirmation of the theoretical right to self management of collectives

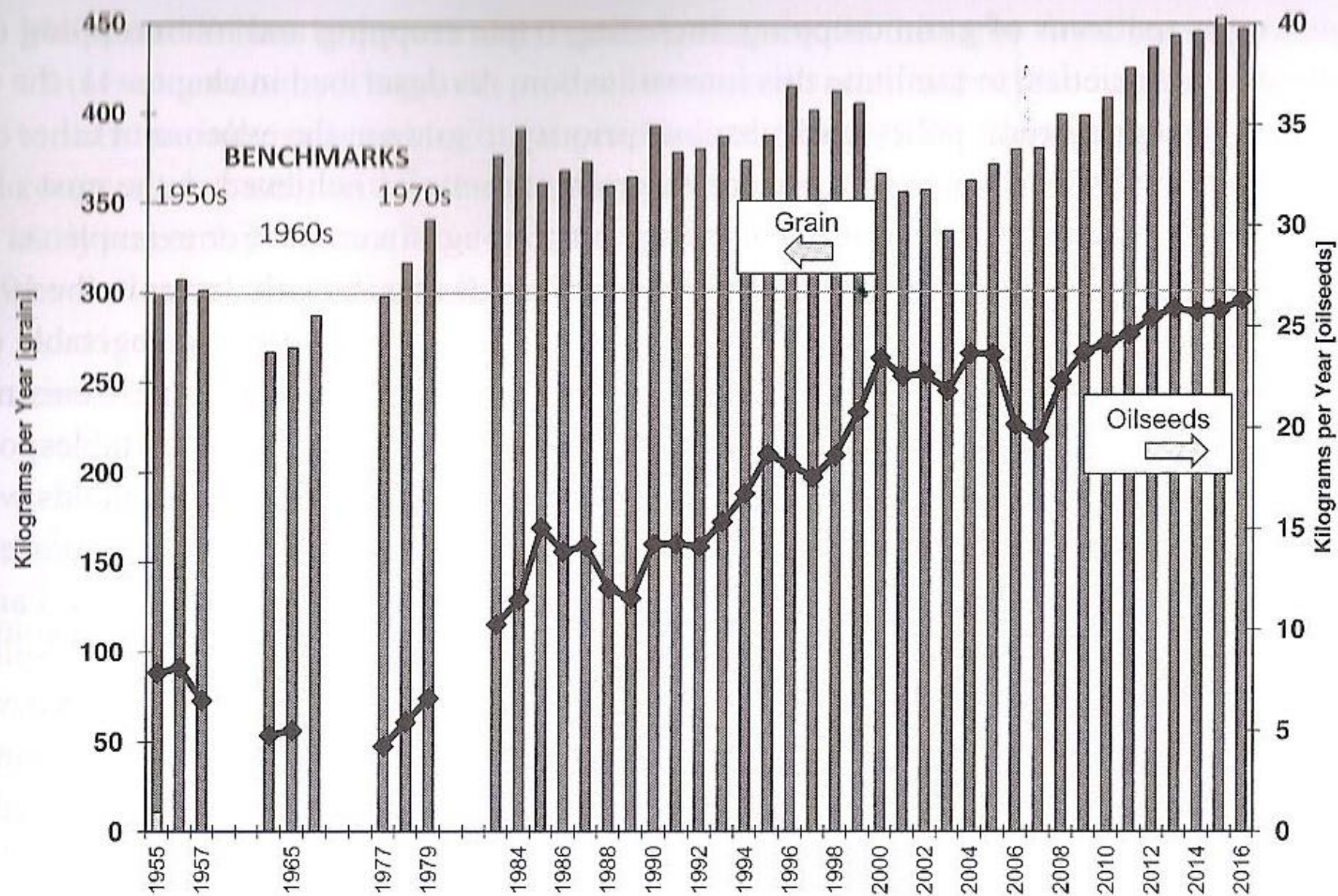
- Collectives start immediately to experiment new policies:
- Different allocation of “work points”: no more work points for inputs (labor days, reputation, effort) but for outputs. Each work group or household had point on the production of a specific piece of land.
- Even more. Some communes started to contract specific piece of land to individual household. First for one years or one harvest, than for 3/5 years, 15 years to 50 in some areas.

**Table 11.2**  
Labor days per hectare.

	1953	1978	1985	2004	2015
Rice	250	421	328	178	93
Cotton	300	908	643	n.a.	256
Wheat	120	461	218	122	70

Sources: Taylor (1988, 740, 747); Li (2013); NBS Rural Department (2016, 275, 276, 279).



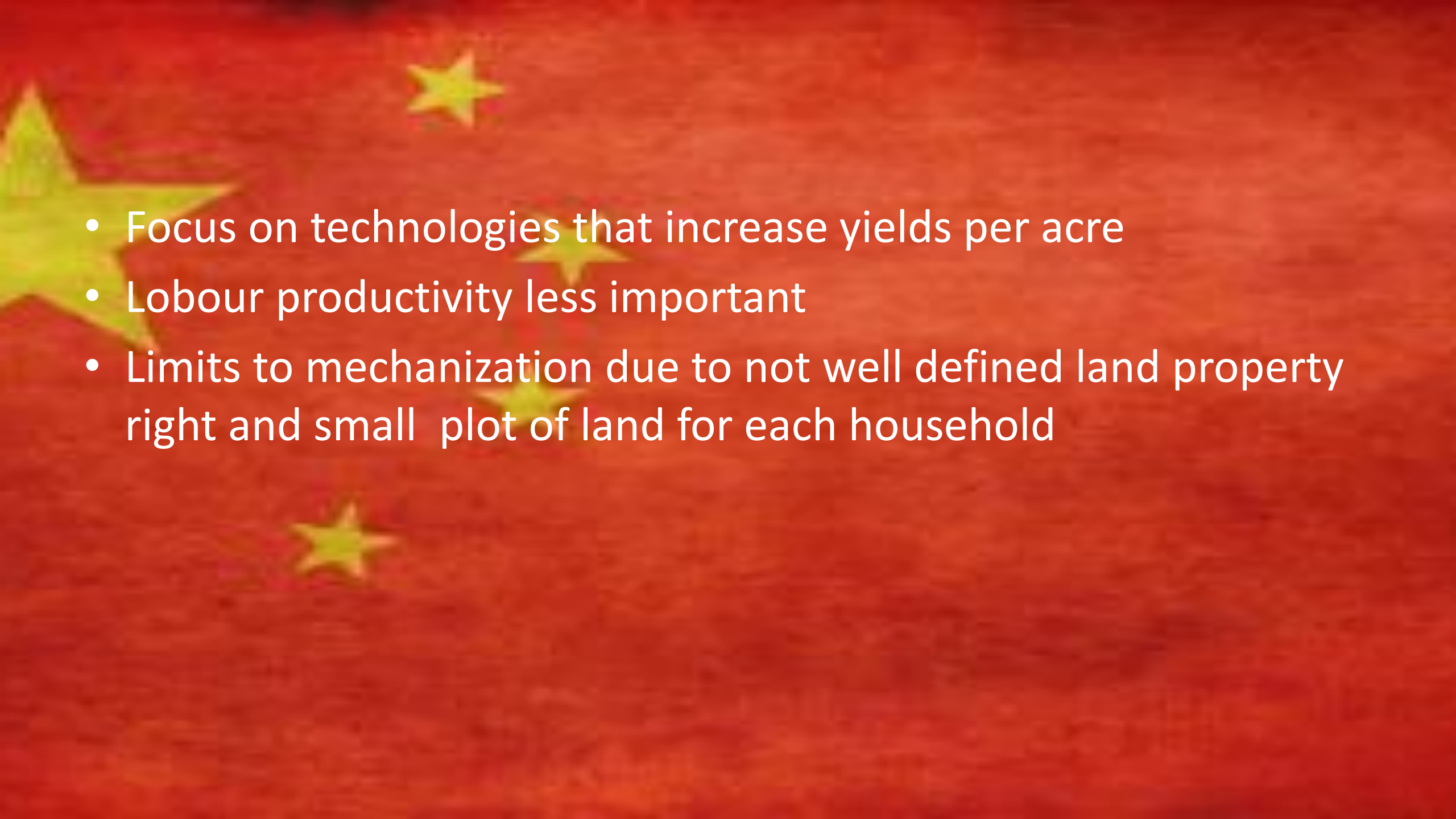


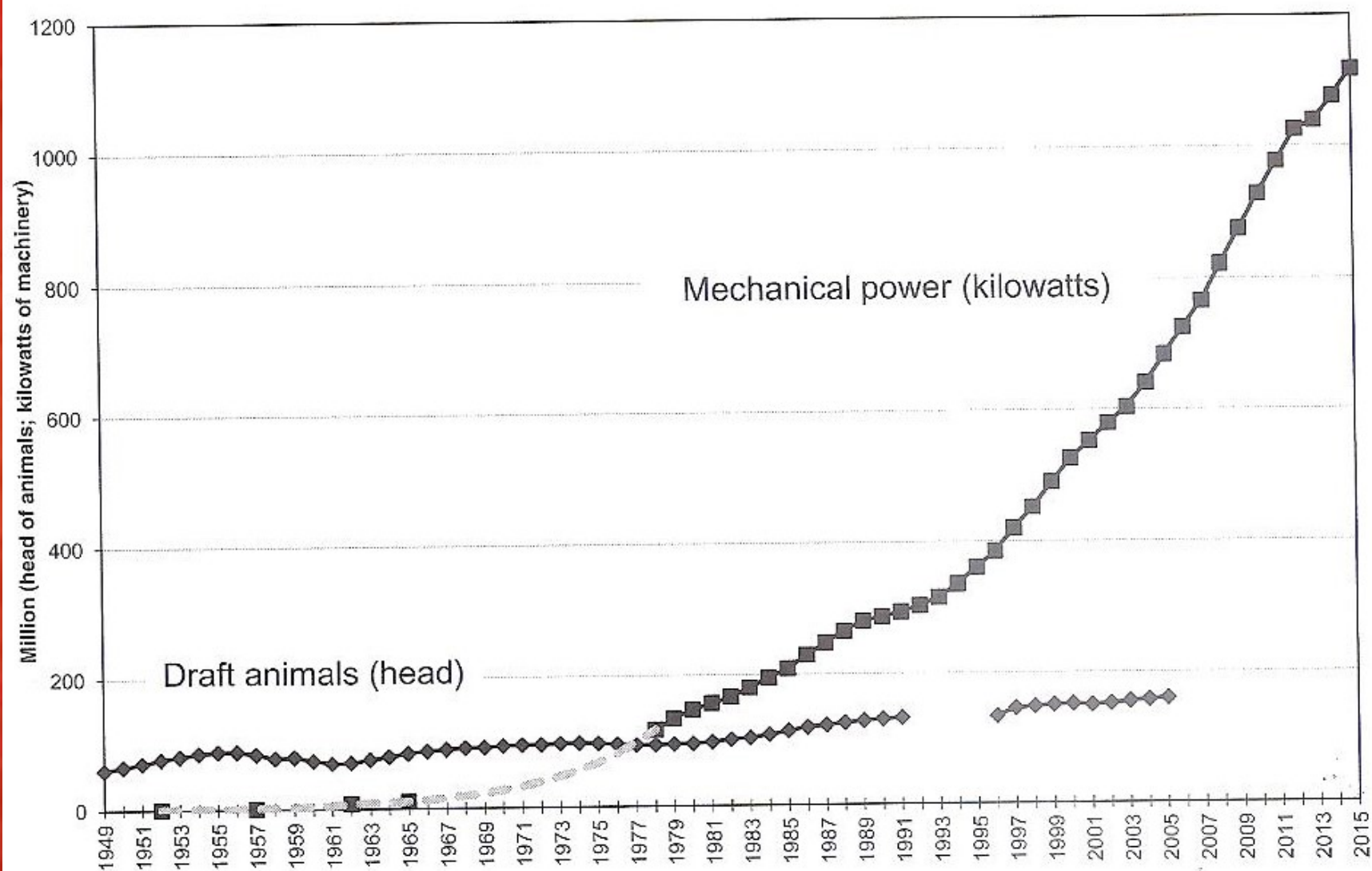
**Figure 12.1**

Per capita agricultural output.

Source: *SYC* (1991, 357; 2015, 407–408).



- 
- Focus on technologies that increase yields per acre
  - Labour productivity less important
  - Limits to mechanization due to not well defined land property right and small plot of land for each household

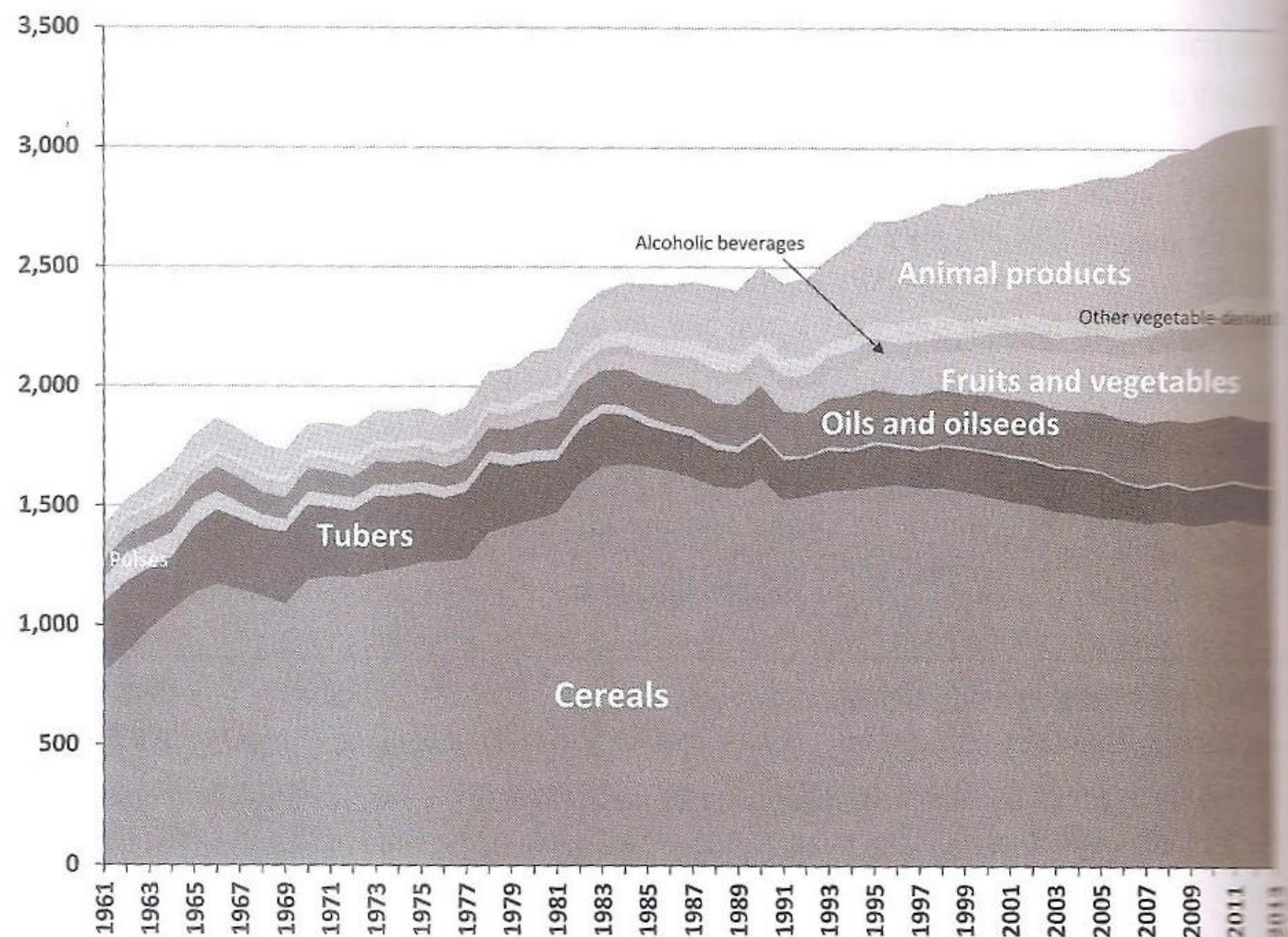


**Figure 12.6**

Rural motive power.

Source: SYC (2016 and earlier editions).

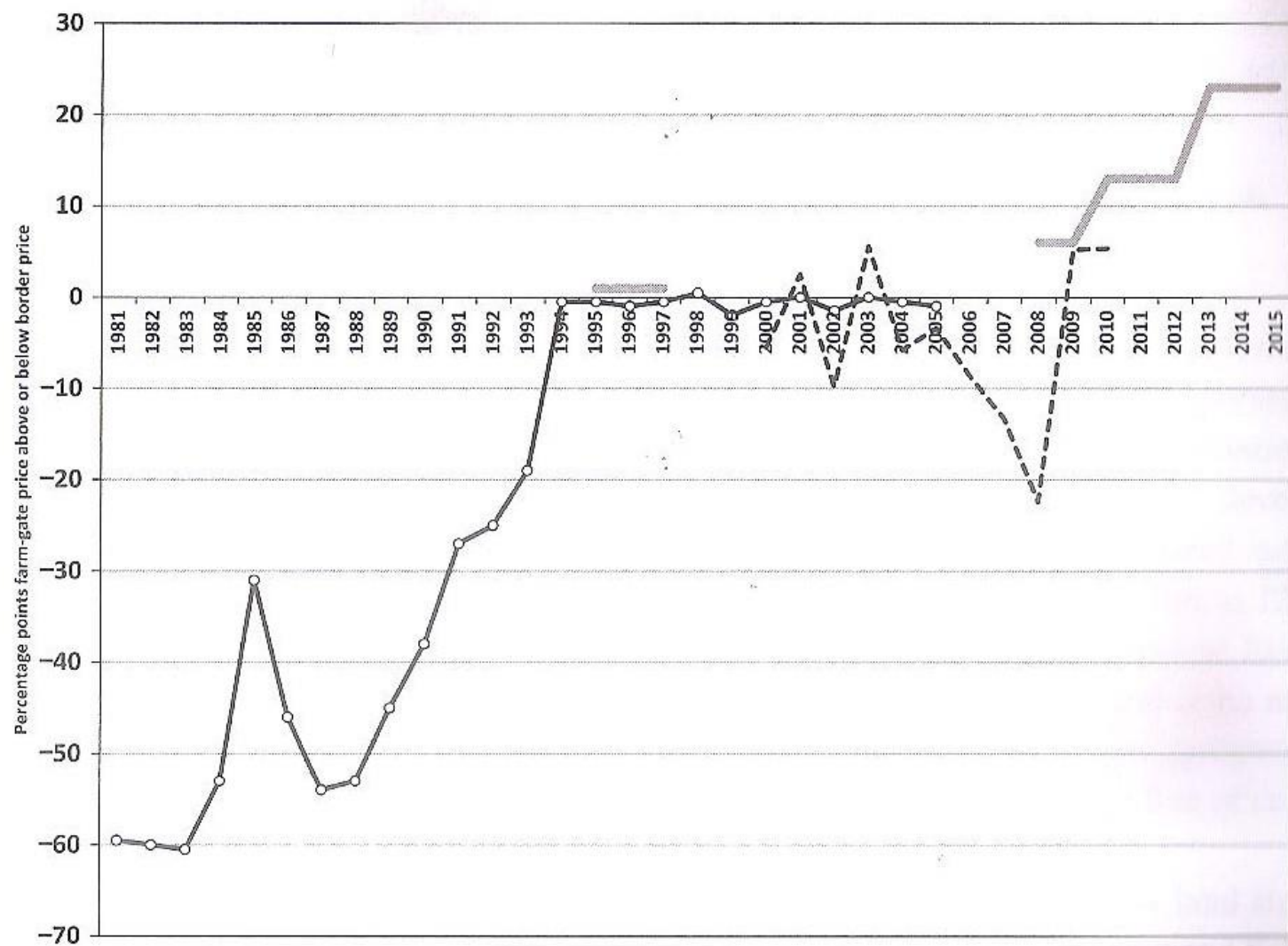




**Figure 12.7**

Average consumption (total calories per person per day).

Source: Food and Agriculture Organization, *Food Balances*, accessed at <http://faostat3.fao.org/download/FB/FBS/E>.



**Figure 12.8**

Farm-gate price relative to border price.

Sources: 1981 through 2005, aggregate of 11 commodities from Huang et al. (2009, figure 80); 2000–2010, simple average of 4 commodities from Huang, Yang, and Rozelle (2015); three-year averages for 1995–1997 and 2008 through 2015 from OECD (2011, 2013, 2015, 2016).



## Since 2005

- No more taxation
- Different subsidies
- Support prices for major commodities
- 11<sup>th</sup> five-years plan 2006: “120 million hectares red line”



# Industrial policies

Vertical – Horizontal - regulation



*“China’s economic growth model shares the goals of a classical East Asian developmental state, but at the policy level is severely constrained by the paradoxical task of dismantling the old communist economic system while maintaining the Communist Party’s absolute monopoly on political power” (Kroeberg 2006)*

Industrial policies should be considered within this framework and considering a Socialist Market Economy



# Industrial policies

- Soe reform (Fernandez Stembridge and Huchet 2006 - Li and Putterman 2008)
- (Fdi Inword (Lemoine 2000 - XU e LU 2009 - Sourafel, Girma e Holger 2009) e Outword (Broadman 2007 – Biggeri e Sanfilippo 2008 - Schuler Zhou and Schuller 2009) )
- “Geography” (Enright et al 2005 - Bellandi e Di Tommaso 2006)
- Public Procurement (Ping Wang 2008, Ping Wang forthcoming)
- Innovation (Schwaag, Serger e Breidne - OECD Reviews of Innovation Policy: China 2008)
- Vertical industrial policies (Brandt, Rawski and Sutton 2007 - Aerospazio: Goldstein 2006, Automotive Donnelly and Morris 2003, Sutton 2004 : High tech industries Linden 2004)
- Antitrust/regulations/standard
- (economic policies as industrial policies)
- (enforcement of the law as industrial policy)





Who is in charge of Industrial  
policies?

2003 - 2019

# Who does Industrial policies?

- NDRC National Development and Reform Commission
- SASAC State-owned Assets Supervision and Administration Commission
- MIIT Ministry of Industry and Information Technology
- Other Ministries
- Other Commissions
- Policy banks
- CCP still control policies

# Sasac

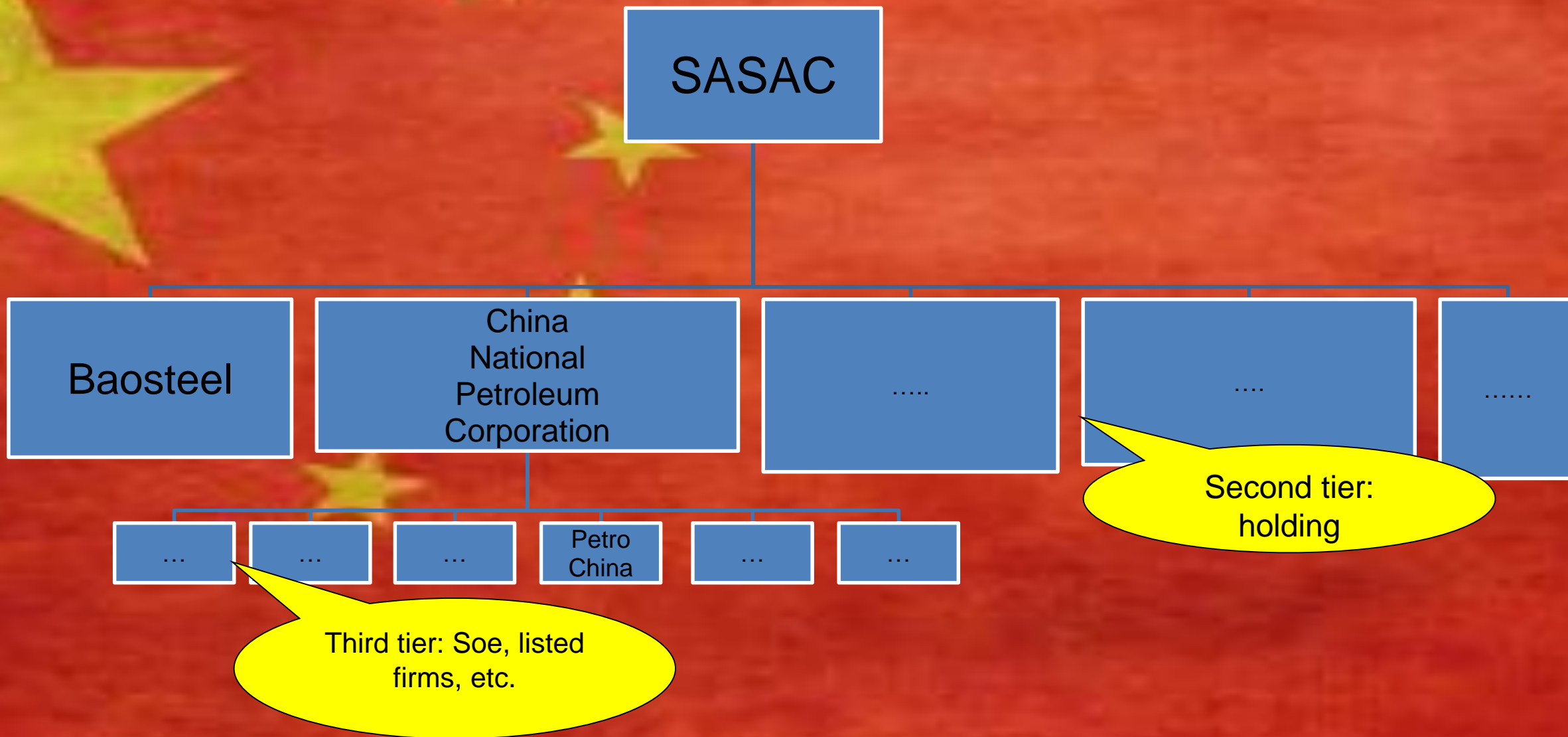
- Established in 2003
- It is a special commission (Ownership Agency) under the direct control of the State Council
- Supervise Soes both at central and local level (local Sasac) and implement industrial policies issued by State Council.
- Controls Soe in industries where the Govern wants to maintain full control (Defense, Telecommunications, oil, electricity, coal, transoceanic shipping, airlines) and other industries with monopoly power. There are holdings also in more competitive industries.
- Looking from our national experience it is an hybrid between IRI + ENI + EFIM and Ministero delle partecipazioni statali



# Sasac and Soe in 2009

- 8.5 milion people work for central Soes
- All Soes hires from 30 to 40 million people.
- The number of Soes decreased from 120.000 in mid '90 to less than 40.000 today.
- Central Soes gives 20/25% of fiscal revenue of the central Govern
- Soe profits represent 4% of GDP and 2/3 of profits belong to Central Soes
- Soes still produce more than 30% of Chinese industrial production
- Soes are 1/3 of market capitalization of Shanghai Stock Exchange
- Central Soes represent less than 4% of exports
- Soes fixed asset investment 20%of Gdp





# Sasac as a policy instrument

- Efficiency of Soes (3 years budget plan – Board of Directors)
- Support Soes Oligopoly
- Support to Soes in foreign activities
- Investment in infrastructure
- Still some price control (Oil price vs Gazoline price – energy price in general)
- Sasac still an instrument to guarantee employment
- Set regulations with NDRC and other ministries

# Problems of Sasac

- It is an Hybrid
- Top Managers (top 50) are appointed by the CP Central Committee
- Profits stop at “second tier” (till 2007)
- Money and power are at the second tier that is still not transparent (only few board of directors)
- Need to be either a policy instrument or a holding seeking efficiency and profits
- Power competition vs price competition



# The future of Sasac

- After 4 years negotiation Sasac had part of the profits generated by Central Soes
- This will allow Sasac to have its own policy based on Incentives for a new set of reforms
- but this autonomy deepen the gap between Sasac and the second tier holdings that have a strong political support.



# CHINA SOE REFORM

Number of SOEs

117



98

Shut Down/Sold

4,977  
firms



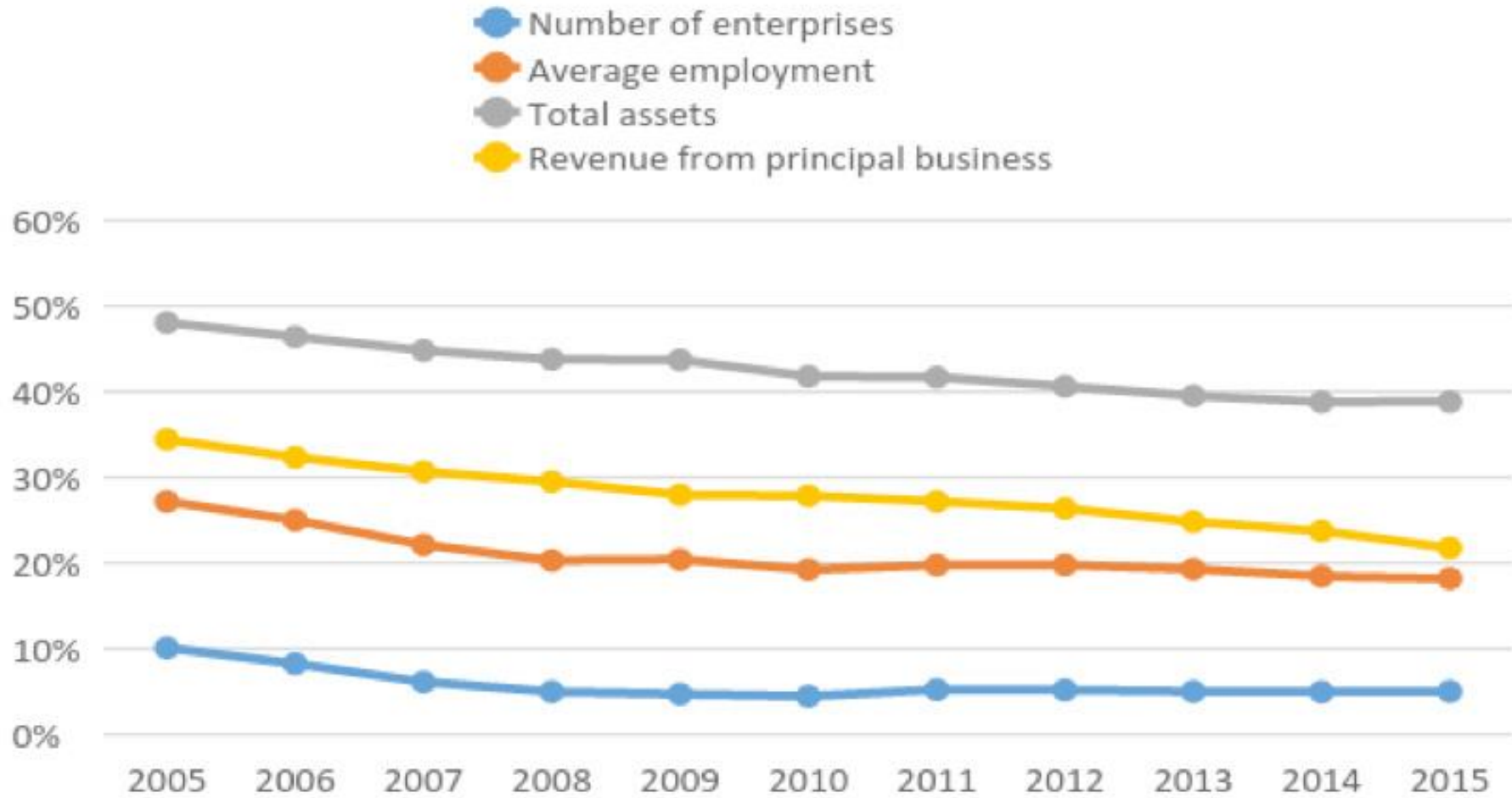
10.6  
billion  
yuan  
Saving Cost

412  
billion  
yuan

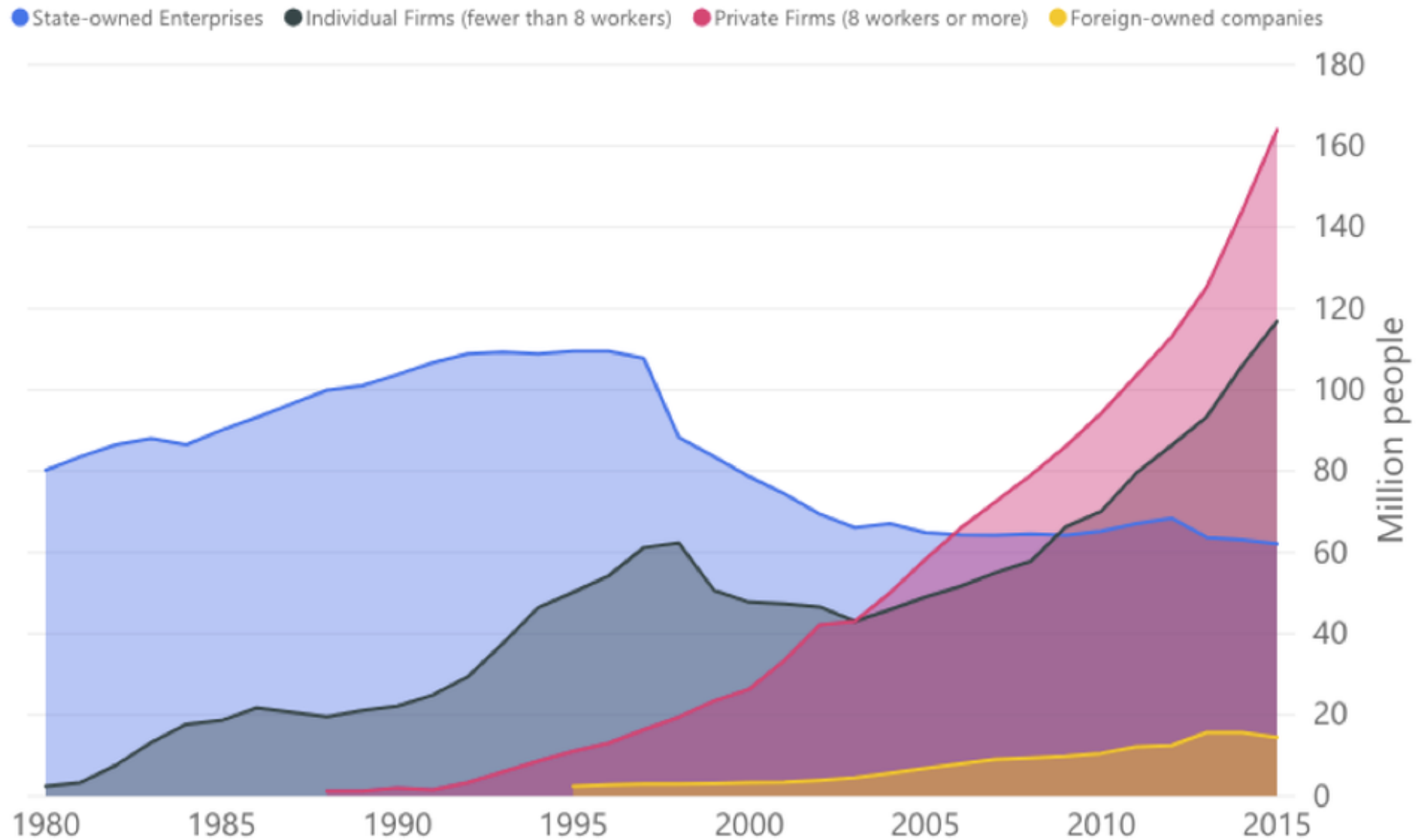
Assets Written Off

*Source: SASAC*

# State Owned Enterprises (Soe)









# Chinese Employment Growth Led by the Private Sector



Source: China Statistical Yearbook, One Road Research

**ONE ROAD**  
RESEARCH

	Rank	Company	Country	Sales ▼	Profits	Assets	Market Value
	#27	Sinopec	China	\$326.6 B	\$8 B	\$249.9 B	\$138.6 B
	#30	PetroChina	China	\$282.4 B	\$4.1 B	\$381.1 B	\$220.2 B
	#1	ICBC	China	\$165.3 B	\$43.7 B	\$4,210.9 B	\$311 B
	#84	China State Construction Engineering	China	\$162.3 B	\$5.1 B	\$257.6 B	\$40.4 B
	#2	China Construction Bank	China	\$143.2 B	\$37.2 B	\$3,631.6 B	\$261.2 B
	#10	Ping An Insurance Group	China	\$141.6 B	\$13.9 B	\$1,066.4 B	\$181.4 B





#80

SAIC Motor

China \$136.6 B \$5.4 B \$118.4 B \$63.8 B



#5

Agricultural Bank of China

China \$129.3 B \$29.6 B \$3,439.3 B \$184.1 B



#9

Bank of China

China \$118.2 B \$26.4 B \$3,204.2 B \$158.6 B



#188

China Railway Group

China \$106 B \$2.5 B \$132.6 B \$25.3 B



#218

China Railway Construction

China \$103.2 B \$2.5 B \$131.1 B \$20.3 B



#35

China Life Insurance

China \$97.1 B \$6 B \$474.2 B \$104.1 B



#169

China Communications Construction

China \$71.2 B \$3 B \$135.6 B \$28.8 B

# Geography

- Zes, technology park, specialized town,
- Slow openness of domestic market
- Domestic market as an opportunity to attract technologies (es Boing and Airbus)
- Go West strategy

# Public Procurement

- In 2001 China promised to (fast) join the Government procurement agreement at Wto
- Public Procurement supports Sme and (given the Charcatristic af the Chinese market) it can be considered a policy for Chinese firms
- Public Procurement supports domestic technologies (up to 8% of price differences)
- There are divisions between provinces



# Innovation

- In the past mainly based on technology improvement from Fdi and Imports
- Today we have a more complex strategy based also on the development of local technologies
- 19,5% annual growth rate of R&D expenditure since 1995 (30 billion US\$ in 2005, 6° in the World)
- “Medium and long term development program”: extra resources for “hard Sciences” but also support for applied research.
- Mltdp peaks technologies (es Nanotechnologies) and also support specific projects (see the development of a medium range aircraft)
- There are problem of coordination (between national and local governs) there are too many scientific parks and there are problem of Incentives, Ipr, and Human Capital.



# Vertical Industrial policies

- There are “pillar” industries at national and provincial level
- There are fiscal incentives and other incentives (cheaper land, easy loans, easy imports, etc.)
- Pillars can change over time: NDRC is in charge or define industries that are supported, industries that have to be reformed or abandoned. NDRC decides where Foreign investor can put their money and How (JV, Wfoe)
- Again there are discrepancies between central and local governs
- We had some good results in Steel industry but non convincing in Automotive and Aircraft industry

# ★ Automotive

- “pillar” industry
- Growing market no national capabilities
- How to do industrial policy with Wto rules....
- Labour cost not the only issue



Issue	Current Status	Agreement Proposals
Import Tariffs	80-100% on passenger cars; as low as 9% on some other vehicles	Reduced to 25% for passenger cars by July, 2006 (see Table 5). Overall average cut to 10 percent by 2006.
Import Licensing Requirements	Quotas vary by year on number and value of imported vehicles; 27,000 vehicle import licenses issued in 1999	Raised limit to \$6 billion worth of imports on accession, 15 percent annual growth until elimination in 2005
Local Content Requirements	Various incentives to speed use of domestic parts suppliers	Elimination of local content requirements on accession*
Import Arrangement Rights	Foreign enterprise cannot directly import vehicles	Import rights granted within 3 years of accession
Distribution, Retail, After Sales Service	Car manufacturers must use Chinese distributors to sell their vehicles, and domestic firms to service them	Distribution, sales and service rights for foreign firms phased in over three years
Finance	Chinese consumers have difficulty financing a vehicle purchase using domestic bank loans	Non-bank foreign firms can provide unrestricted auto financing on accession



Category	Accession	1/2001	1/2002	1/2003	1/2004	1/2005	1/2006	7/2006
100% tariff cars	77.5%	61.7%	50.7%	43.0%	37.6%	30.0%	28.0%	25.0%
80% tariff cars	63.5%	51.9%	43.8%	38.2%	34.2%	30.0%	28.0%	25.0%
Trucks						15-30%		
Buses						25.0%		



## Wto scenarios for automotive

1. Imports up and national production down
2. Production and productivity up (new competitiveness): China world leader (whether through domestic or foreign players)
3. Surviving like today

# Policies?

- Encourage FDI (but only JV)
- Give some captive markets (too much)
- Non tariff barriers
- Find allies within Wto (vw, gm, etc)
- Push demand (but today slowing down)
- Some extra help to national producers

# And now?

- Excess capacity
- Growing of small car segment
- Consolidation
- Domestic producers still not competitive abroad
- But still a lot of money going into this industry



# Antitrust/Regulation/Standards

- Antitrust has to fight also regional protectionism
- Antitrust cannot go against other policies Issued by the Govern... “to promote the Healthy development of the Socialist Market economy”
- Soe can build price cartels
- Antitrust controls Foreign firms not to have dominant position but also to have a “balanced development”
- China Compulsory Certification for 132 Items as a policy



# Industrial policies, world crisis and stimulus package

- Investment in Infrastructures
- Export support
- Buy Chinese (a sort of)
- Increased bank loans outstanding
- Faster spending than US stimulus package
- Environment
- Reconsidering Fdi

The background of the slide is the flag of the People's Republic of China, featuring a red field with five golden-yellow stars. One large star is positioned on the left, and four smaller stars are arranged in an arc towards the fly. The text is centered on the flag.

# One child policy

1980 - 2015



## 1953 - 1978

- Ambivalent family planning strategy
- In the 70ies: “later-longer-fewer”
- Legal minimum age for marriage increased
- Wait to have the second child
- (“two-child but wait policy”)

# ★ One Child policy

- 1 Child per family
- Fines and other penalties for couple with more than 1 kid
- Exemptions for minorities
- Different enforcement in different part of the country and in different periods
- Especially at the beginning it was very intrusive (sterilizations, compulsory intrauterine devices, forced abortion)

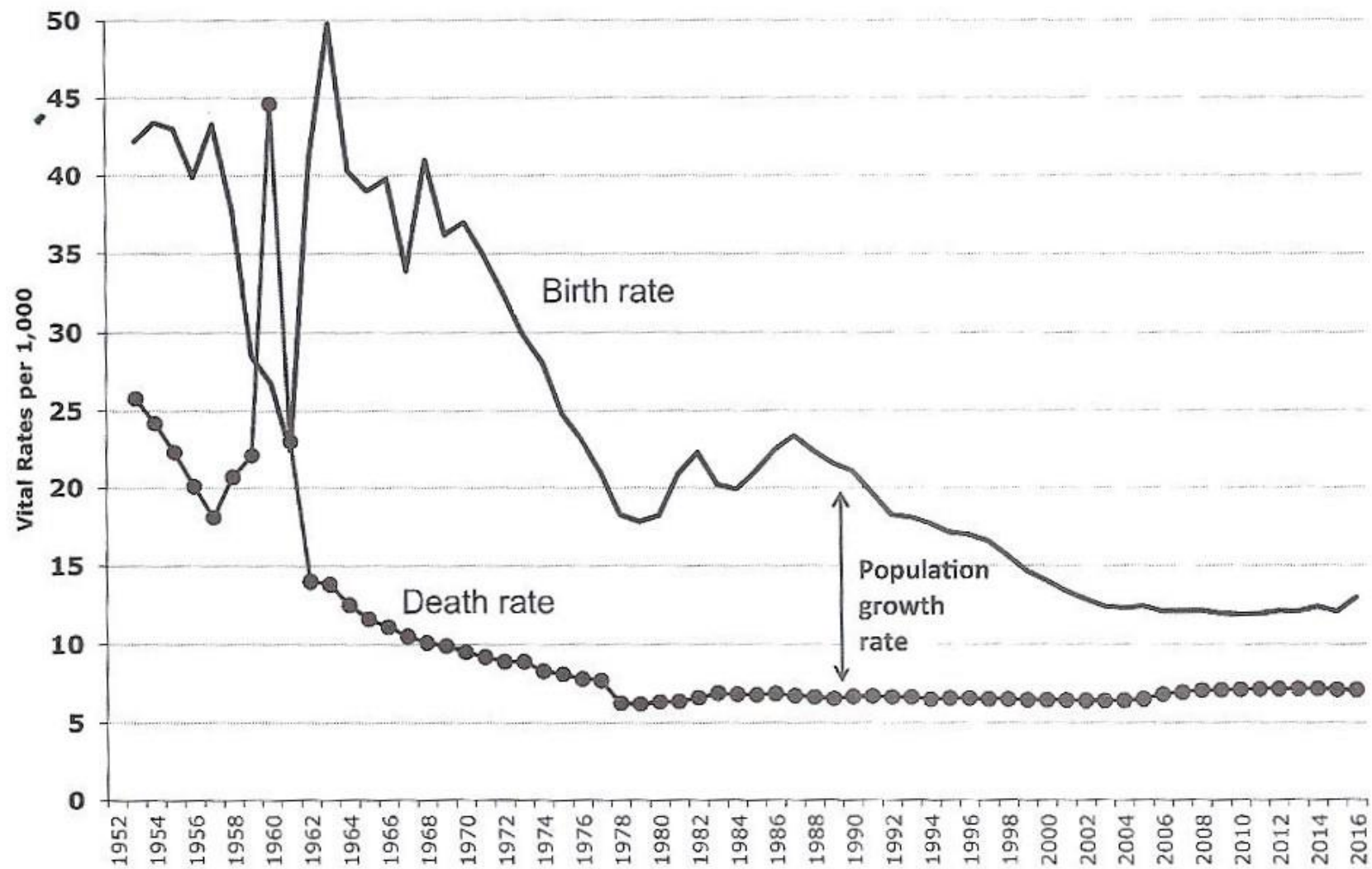


# ★ One Child policy

- After 1984 “one and half child policy”
- Second child for couple in rural areas if the first was a girl
- Decrease of sterilizations, compulsory intrauterine devices, forced abortion
- After 1991 One child policy was tightened again
- 2013, couples where either the mother or the father was a single kid could have a second child
- 2015 end of the policy

# Demographic dividend

- Mechanical effect
- Saving effect
- Human capital effect

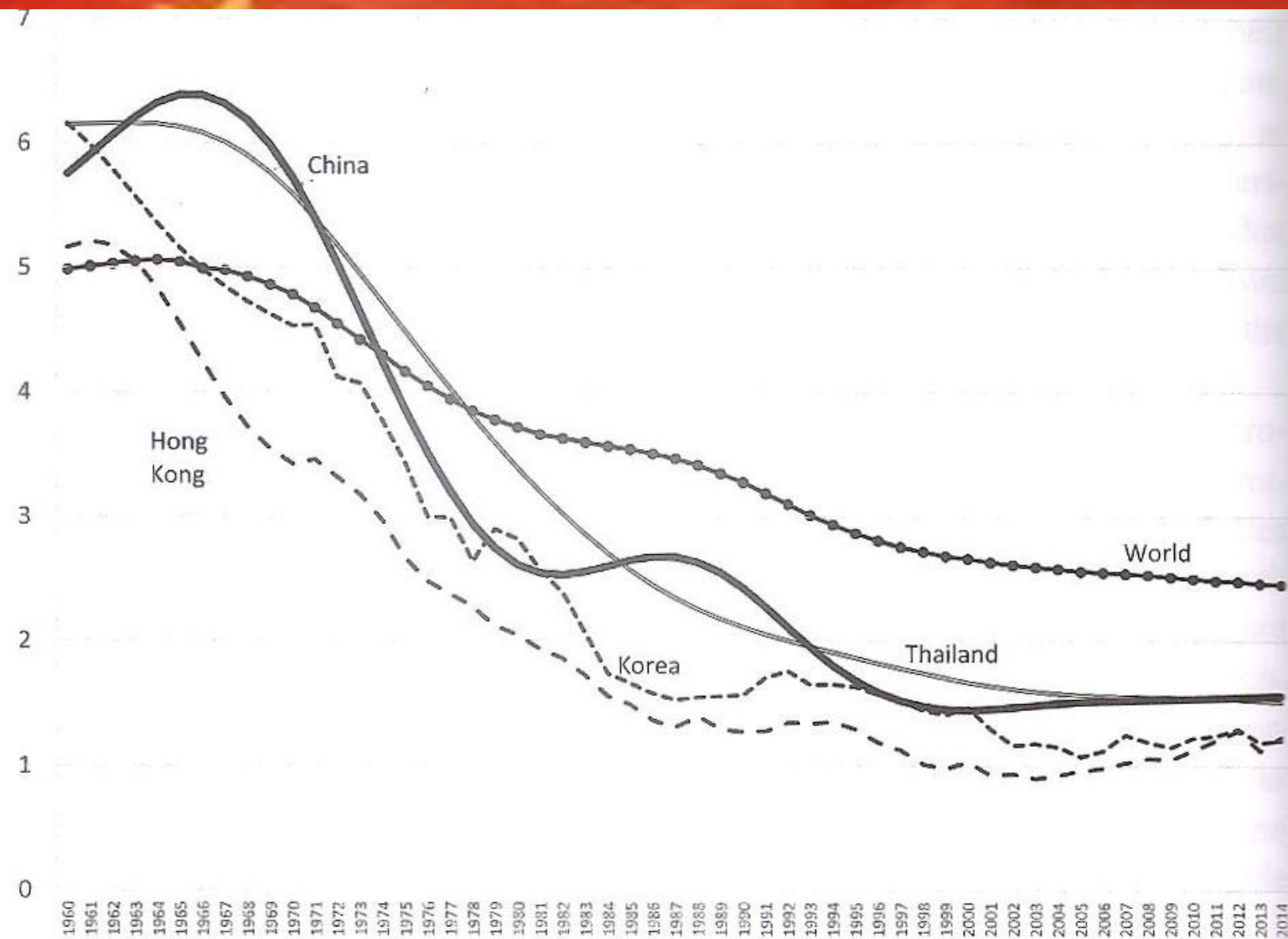


**Figure 8.1**

Vital rates.

Source: Banister (1987), updated from *SYC*.





**Figure 8.2**

Total fertility rate: China in context.

Source: World Bank, World Development Indicators, <http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators>, accessed November 30, 2016.



## ★ Missing girls....

**Table 8.1**

Reported sex ratio at birth (males per 100 females).

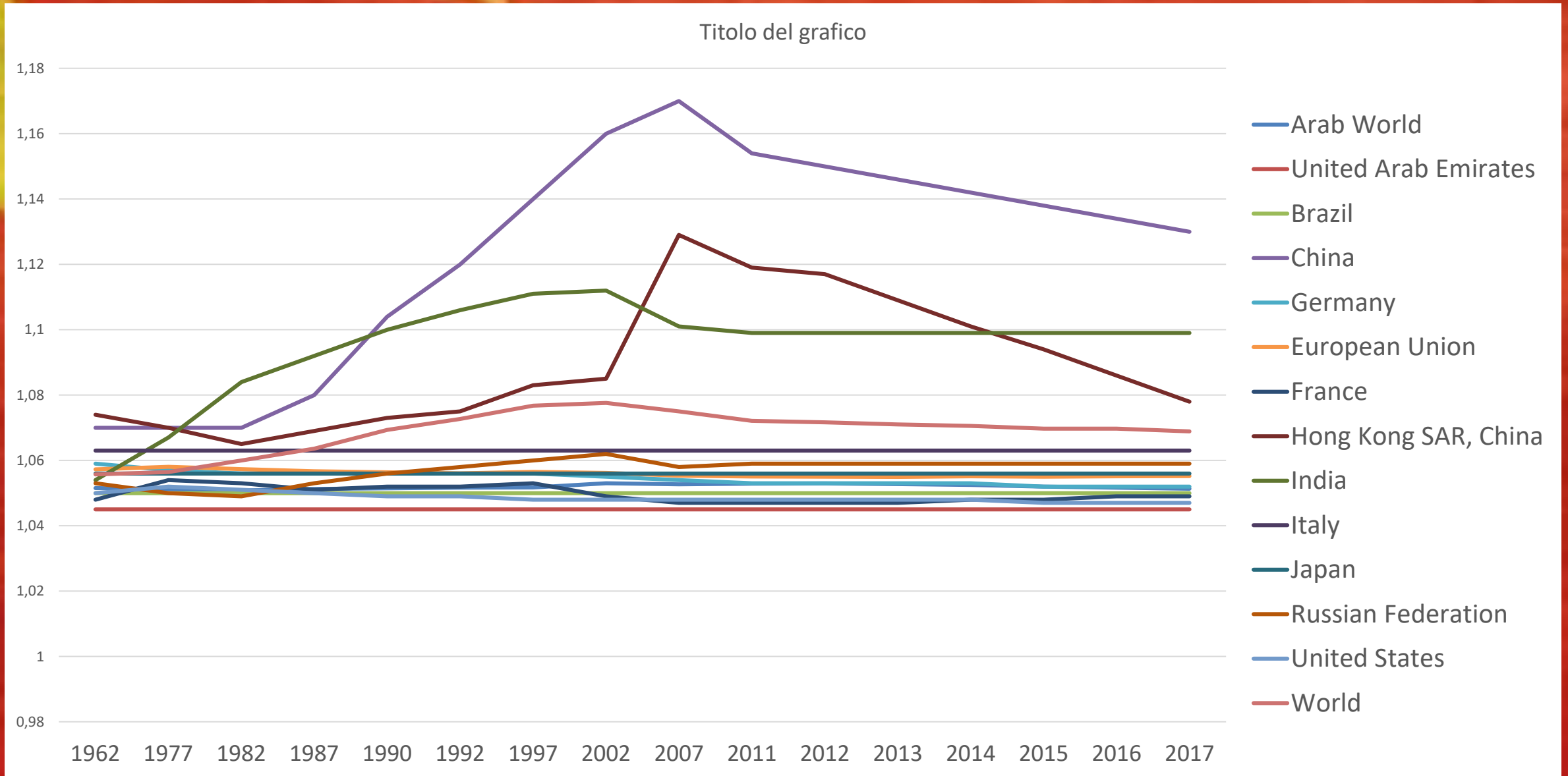
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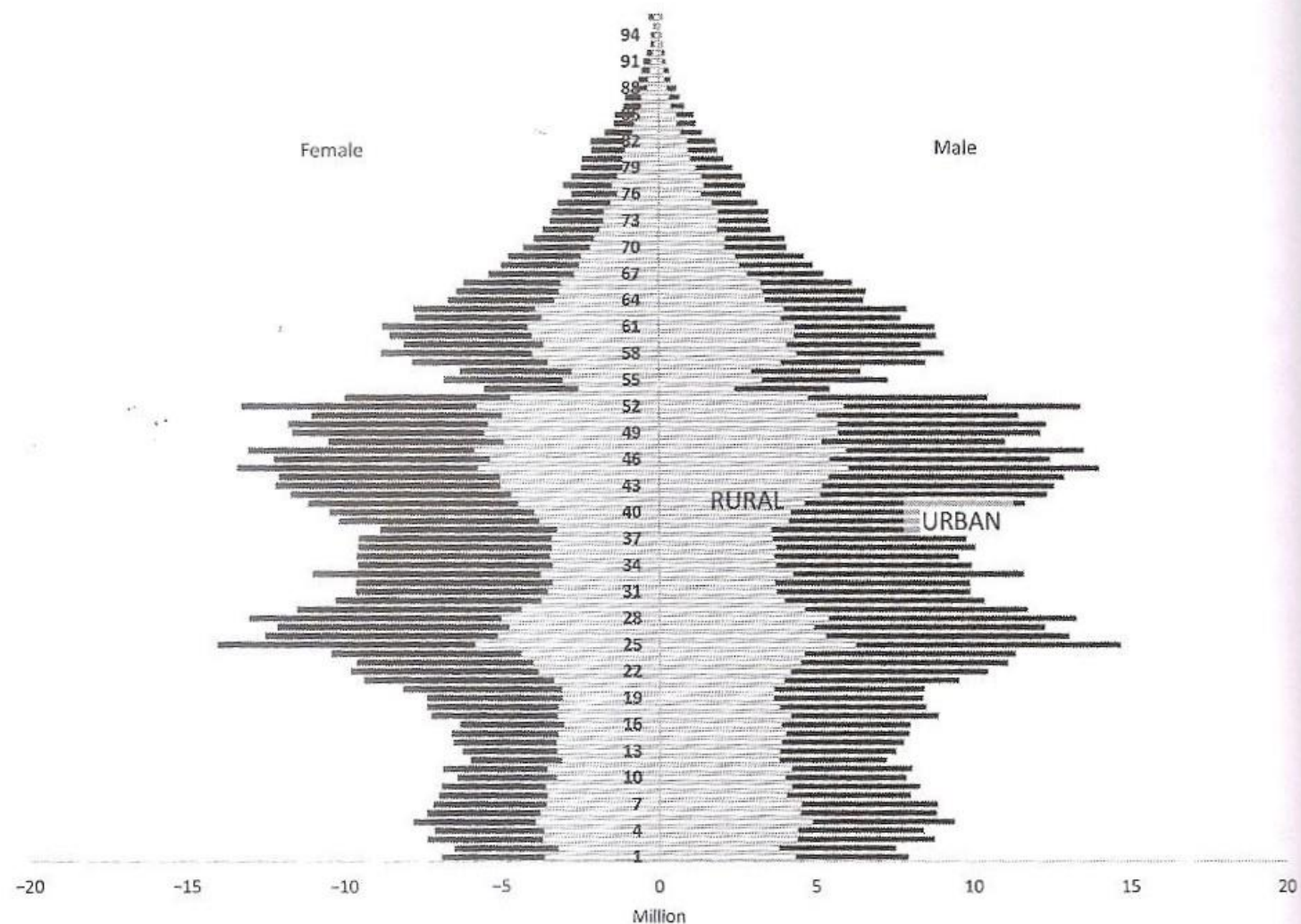
1953	104.9
1964	103.8
1982	107.6
1990	111.8
2000	117.8
2010	118.6

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Source: Census Office (2014, 94).

# Sex ratio at birth



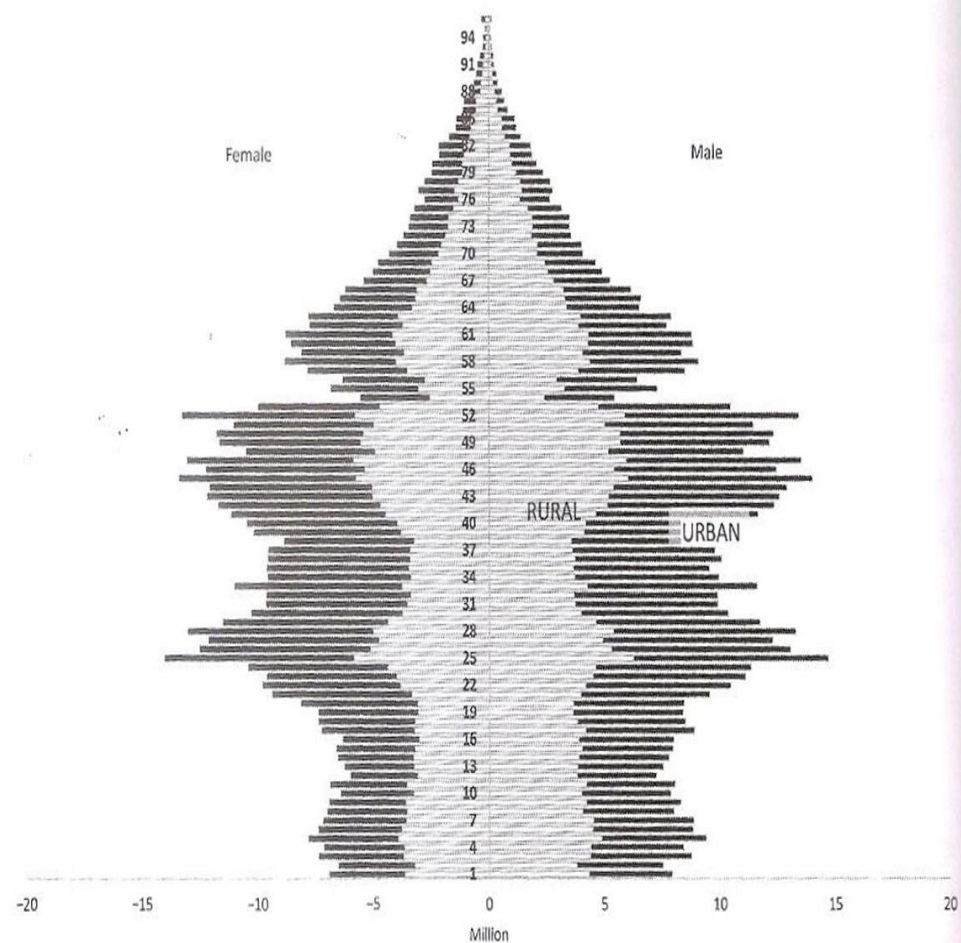


**Figure 8.4**

2015 population age pyramid: Urban and rural.

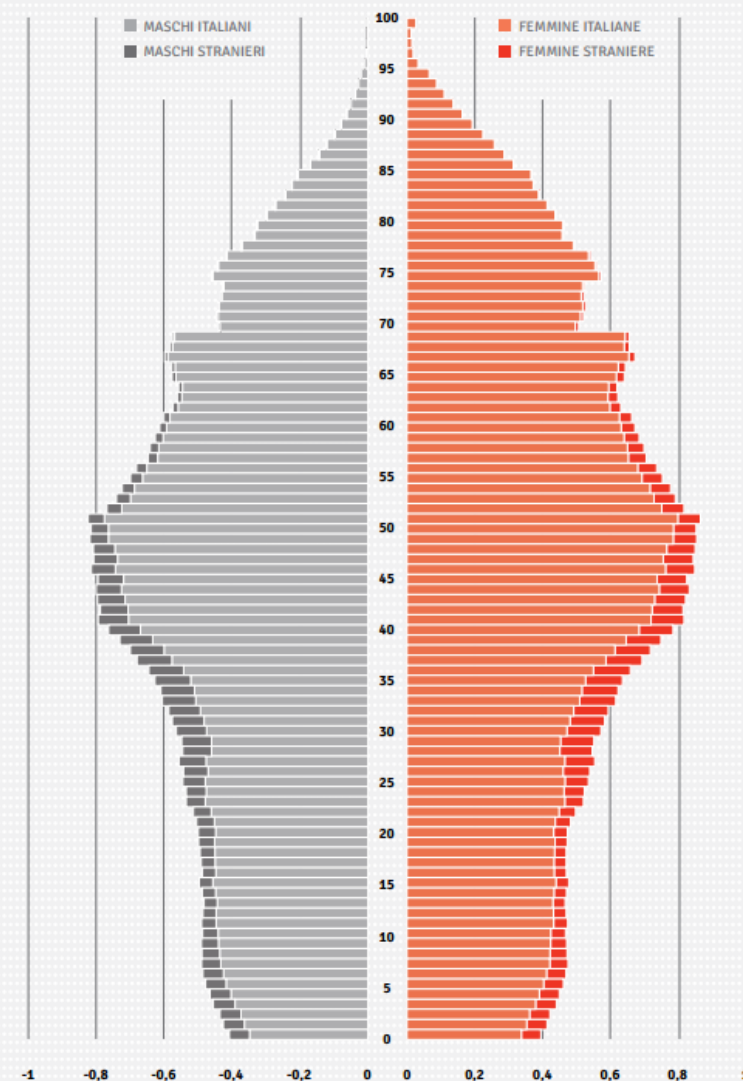
Source: National Bureau of Statistics (2016, table 3-1). Data are grossed up from this 1.55% sample of national population.



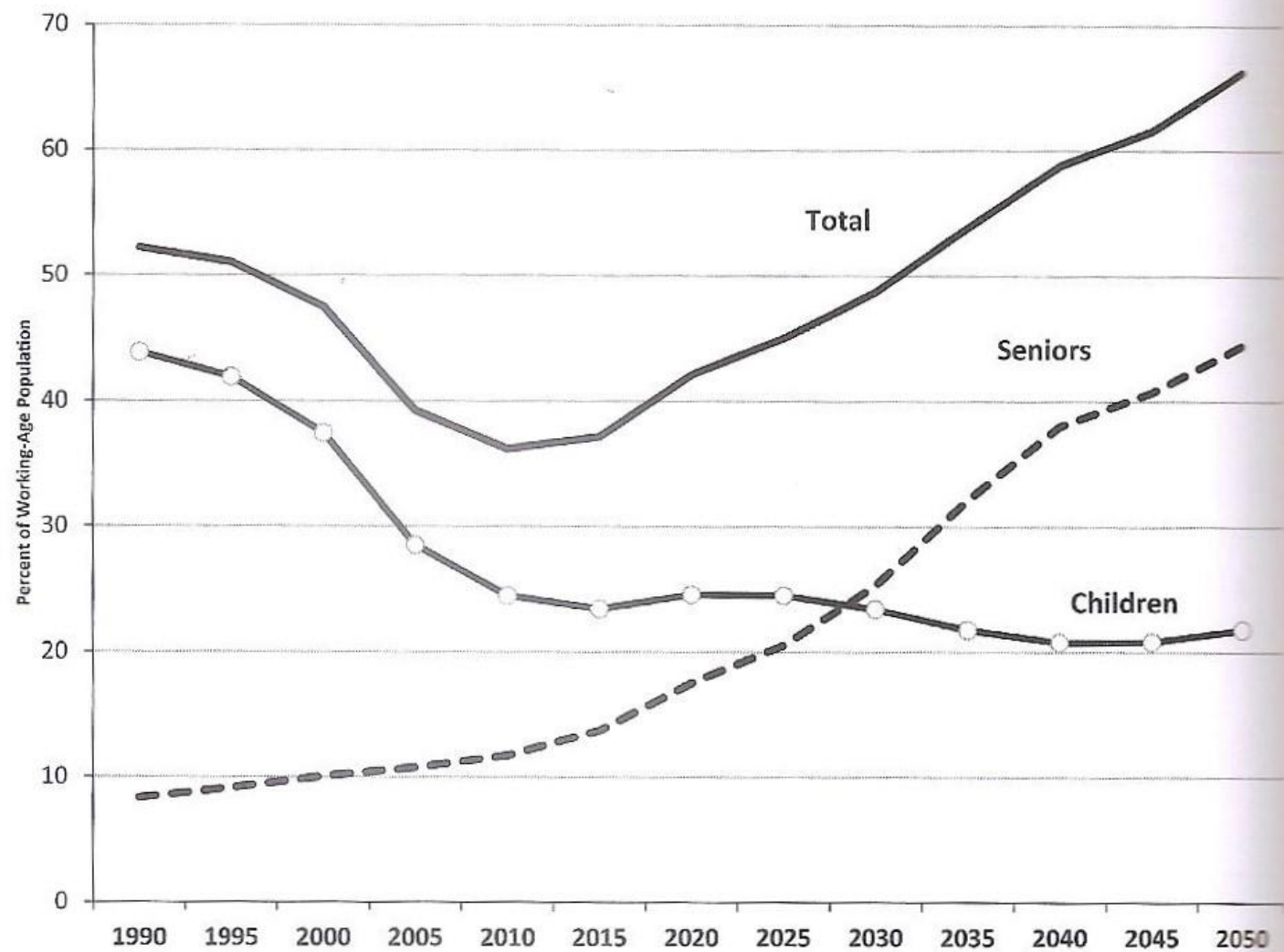


**Figure 8.4**  
 2015 population age pyramid: Urban and rural.  
 Source: National Bureau of Statistics (2016, table 3-1). Data are grossed up from this 1.55% sample of national population.

**PIRAMIDE DELL'ETÀ DELLA POPOLAZIONE RESIDENTE PER SESSO E CITTADINANZA**  
 Popolazione al 1° gennaio 2016, valori percentuali







**Figure 8.6**

Dependency rates.

Source: U.S. Census Bureau International Database, <http://www.census.gov/population/international/data/idb/informationGateway.php>, accessed December 15, 2016.

**Table 8.2**

Percentage of population age 65 or older.

	2015	2030	2050
China	10.0	17.0	26.7
Hong Kong	15.3	27.4	35.3
Japan	26.6	32.2	40.1
Korea	13.2	24.0	34.7
Taiwan	12.5	23.1	34.9
Vietnam	5.8	11.3	20.7

Source: U.S. Census Bureau International Database, <http://www.census.gov/population/international/data/idb/informationGateway.php>, accessed December 15, 2016.