

MARKETS OVER MAO

**THE RISE OF
PRIVATE BUSINESS
IN CHINA**

—

NICHOLAS R. LARDY

PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS

WASHINGTON, DC | SEPTEMBER 2014

Contents

Preface	ix
Acknowledgments	xiii
Introduction	1
1 State versus Market Capitalism	11
Product Markets	12
Labor and Capital Markets	16
Competition	23
Evolving Role of Economic Planning	38
2 Reform of State-Owned Enterprises	43
Grasping the Large, Releasing the Small	45
Emergence of SASAC	48
Did the Hu-Wen Reforms Succeed?	55
3 Rise of the Private Sector	59
Changing Structure of Ownership	60
Role of Private Firms in Generating Employment and Exports	82
Explaining the Growth of the Private Sector	89
4 Implementing the Reform Agenda	123
State Firms Drag Down Growth	124
The Opportunity in Services	128
Financial Sector Reform	135
Power of the Chinese State in Perspective	138
Debating the Role of the Market	146

Appendix A Alternative Measures of Private Sector Credit	157
---	------------

Appendix B State versus Private Borrowing Costs	163
--	------------

References	167
-------------------	------------

Index	177
--------------	------------

Tables

1.1 Price formation in the reform era by commodity type, 1978–2003	15
1.2 Losses of state industrial firms, 1978–2012	34
2.1 Profits of central SASAC firms, 2002–13	56
3.1 Enterprises classification system	64
3.2 Private enterprise and household business classification system	65
3.3 Individual businesses and registered private enterprises in China, 2002–12	70
3.4 Private enterprises by sector, 2009	72
3.5 Employees of individual businesses by sector, 2009	73
3.6 State share of industrial output by subsectors, 2011	77
3.7 Urban registered private enterprise and individual business employment, 1978–2012	83
3.8 Urban employment in privately controlled firms, 2011	85
3.9 Loans by financial institutions to private businesses, 1980–2013	101
4.1 Investment in modern services by firm ownership, 2012	135
4.2 Public sector employment, 1999–2011	139
A.1 Short-term loans to private and individual businesses, 1980–2009	158
A.2 Loans outstanding to private-controlled enterprises, 2009–12	161
A.3 Consumption loans to households, 1997–2013	161
A.4 Total bank loans outstanding to the private sector, 2009–12	162

Figures

1.1 Profit margins in Chinese industry by ownership, 1985–2013	27
1.2 Profit margins of state nonfinancial corporations, 2000–2013	29
3.1 Alternative measures of the private share of value-added industrial output, 2003 and 2007	74
3.2 Gross industrial output of state enterprises, 1978–2011	75
3.3 Sources of Chinese exports by ownership status, 1995–2013	87
3.4 Retained corporate earnings as a share of corporate investment, 1992–2011	96
3.5 Return on assets of state and private industrial enterprises, 1996–2012	98
3.6 Flow of enterprise loans by ownership, 2010–12	105
3.7 Stock of enterprise loans by ownership, 2009 and 2012	106
3.8 Interest coverage ratio of state and private industrial enterprises, 1996–2012	110