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School of Management

# STATE CAPITALISM: RETHINKING “CHINA MODEL”

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# THE “CHINA MODEL”

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- ❑ Infrastructures
- ❑ Strong government
- ❑ State capitalism and government ownership
- ❑ One-Party political system

# WHICH COUNTRY IS THIS?

- ❑ GDP grew by 11% for a decade
- ❑ Government savings doubled in 10 years
- ❑ Rapid industrialization:
- ❑ High income inequality: Gini coefficient was 50
- ❑ Wage growth lagged GDP growth
- ❑ 75% of assets of top 100 firms: SOEs
- ❑ One-party system
- ❑ *Wall Street Journal*: The country “has something to teach the US about economic growth.”

# ACTUALLY IT IS BRAZIL

- “Miracle years:”
  - GDP grew by 11% between 1968-1974
- But bad performance afterwards
  - “Brazil has a lot of potentials and it will always have a lot of potentials.”
  - Lost decade of the 1980s and financial crises
  - Richer than Korea and Taiwan in 1950 but far poorer today
  - Hyperinflation
  - Anemic growth in the 1990s and crisis

# Is Democracy really Bad for Growth?

# A TALE OF TWO ASIAN COUNTRIES

□ 1990:

- Country A: \$317
- Country B: \$461

□ 2008

- Country A: \$714
- Country B: \$650

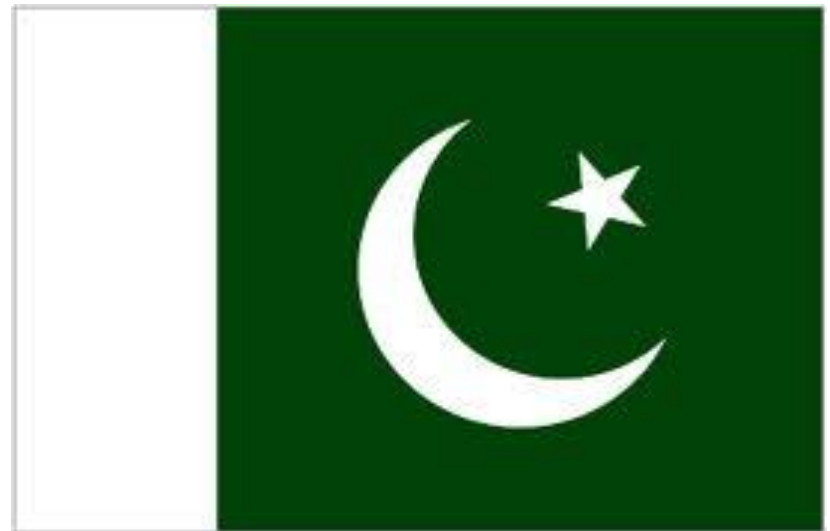
Constant 2000 dollar; WDI data



*Two questions:*

- *Which are these two Asian countries?*
- *Which one is democratic?*

# A TALE OF TWO ASIAN COUNTRIES



**But why do so many believe in authoritarian governments?**



# EAST ASIAN MODEL: KOREA, TAIWAN, HONG KONG, AND SINGAPORE

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# POLITICS AND CHINESE GROWTH TAKEOFF

- Many political reforms in the 1980s
  - Substantial media freedom in the early 1980s (by Chinese standard)
  - Village elections introduced
  - Recruiting capitalists into the Party (1981)
  - Returning confiscated properties to former capitalists (1979)
  - Reducing power of the Party
  - Intra-Party democracy
  - Substantial financial reforms in rural China

# CHALLENGES

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- Balanced and sustainable development
- Overcoming “middle income” trap
- Political and institutional reforms

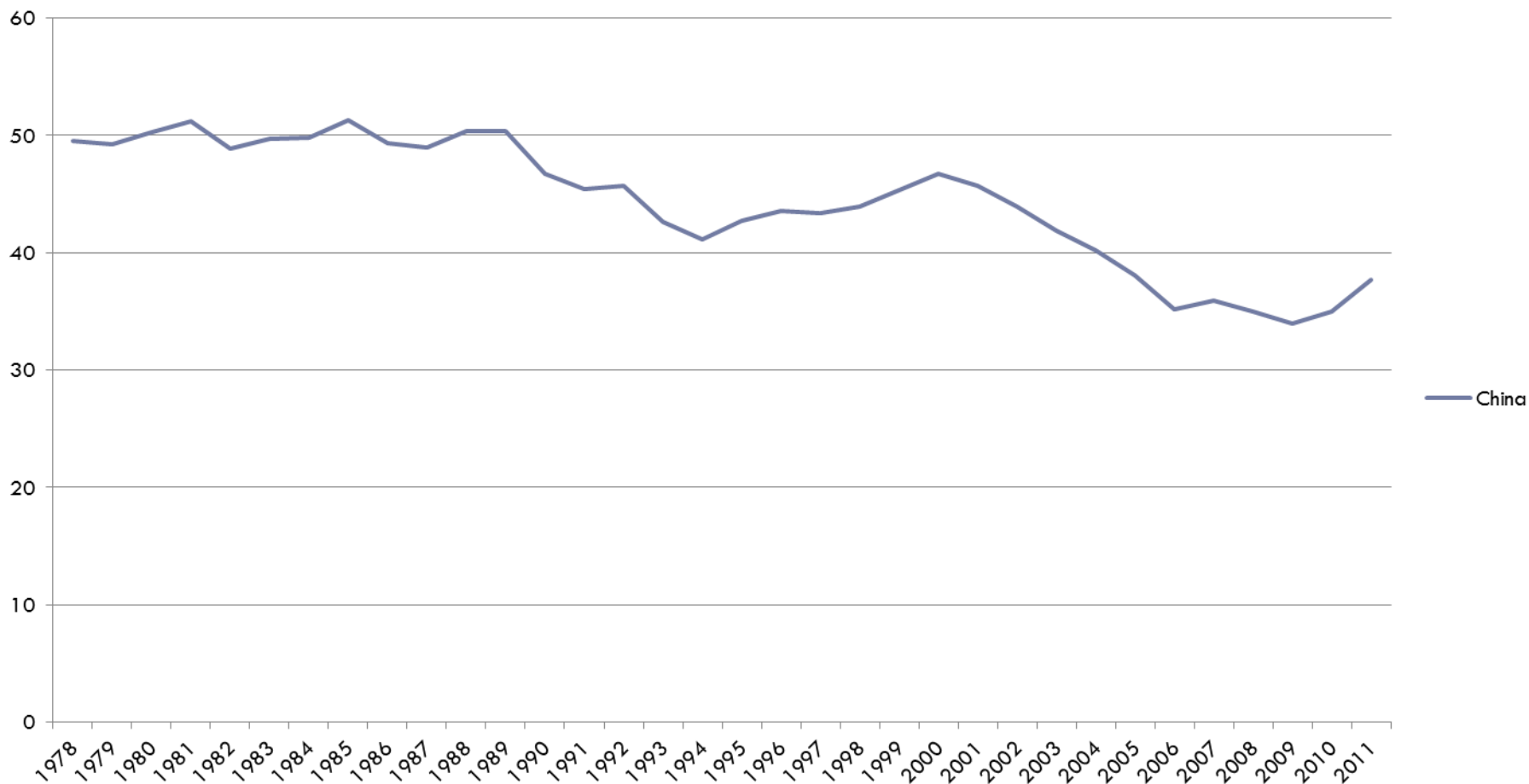
# PROBLEMS WITH STATE CAPITALISM

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- ❑ State capitalism good at:
  - Building infrastructures rapidly
  - Resource mobilization to target funding
- ❑ But not very good at:
  - Personal income growth (relative to GDP growth)
  - Economic and social balances: 1) Declining consumption; 2) Rising income inequality, and 3) Corruption

# THE GREAT CONSUMPTION COLLAPSE

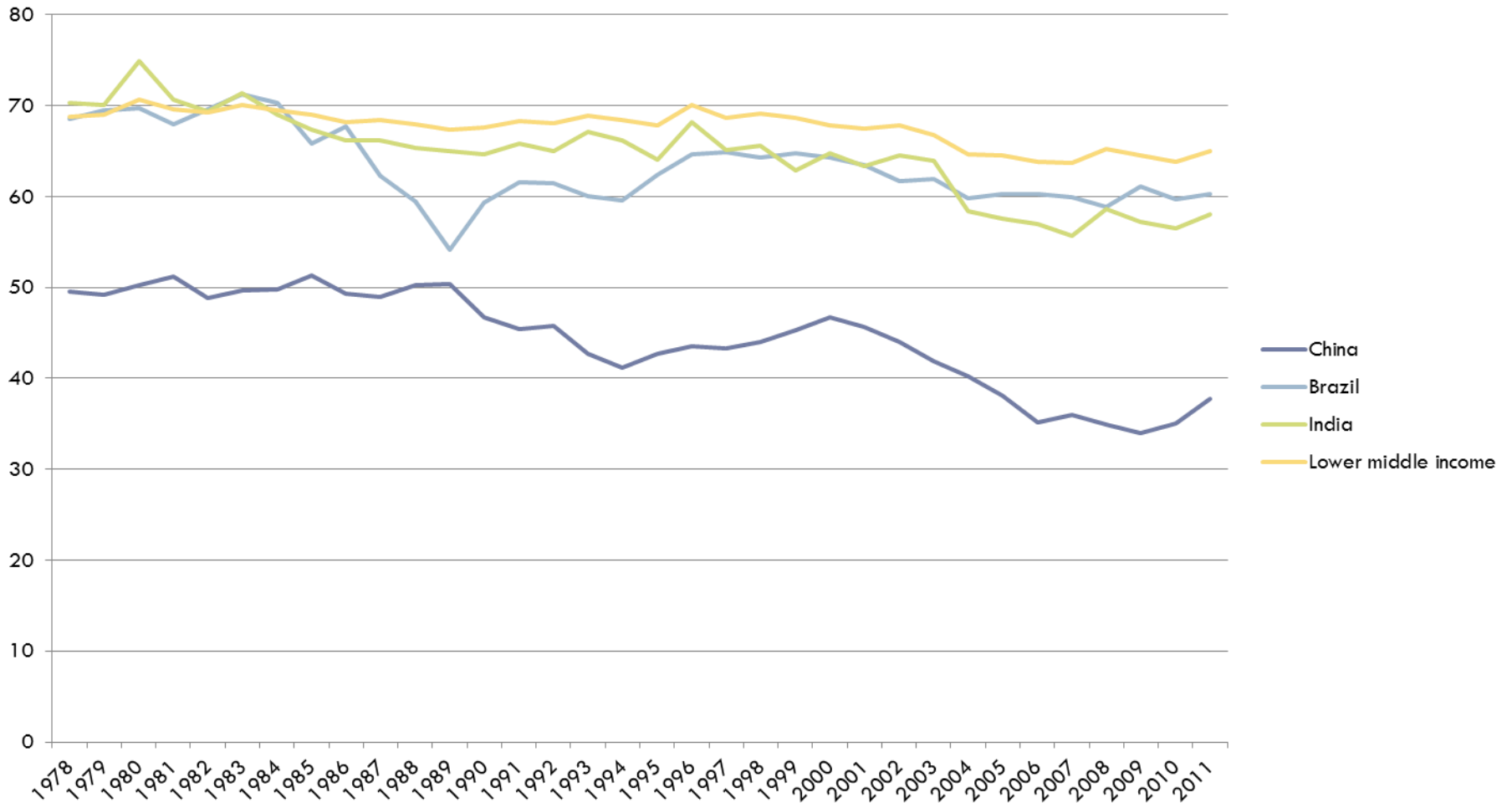
## China



Household final consumption expenditure % GDP. From World Bank's WDI.

# CHINA'S UNUSUAL CONSUMPTION DECLINE

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Household final consumption expenditure % GDP. From World Bank's WDI.

# MIDDLE INCOME TRAP

# VERY FEW COUNTRIES SUCCEEDED IN MOVING OUT OF “MIDDLE-INCOME TRAP:” (ROZELLE 2012)

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<b>East Asian Countries / Regions</b>	<b>Mediterra- nean</b>	<b>Eastern Europe</b>	<b>Others (oil countries*)</b>
S. Korea	Portugal	Croatia	E. Guinea*
Taiwan	Spain	Slovenia	Trin & Tob*
	Greece	Slovak Rep.	
	Israel	Hungary	Ireland
		Czech	New Zea.
		Estonia	

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# THOSE WHO SUCCEEDED ARE INCLUSIVE: LOW INCOME INEQUALITY (ROZELLE 2012)

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<b>East Asian Countries / Regions</b>	<b>Mediterranean</b>	<b>Eastern Europe</b>	<b>Others (oil countries*)</b>
S. Korea (32)	Portugal (38)	Croatia (34)	E. Guinea*
Taiwan (32)	Spain (35)	Slovenia (31)	Trin & Tob*
	Greece (34)	Slovakia (26)	
	Israel (39)	Hungary (31)	Ireland (34)
		Czech (26)	New Zea. (36)
		Estonia (36)	

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**Average: 33**

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# ALL VERY HIGH INCOME INEQUALITY (ROZELLE 2012)

□ Argentina	(46)
□ Brazil	(54)
□ Chile	(52)
□ Costa Rica	(50)
□ Malaysia	(46)
□ Mexico	(52)
□ Russia	(42)
□ Thailand	(42)
□ Tunisia	(41)
□ Turkey	(43)
□ Uruguay	(42)
□ Venezuela	(44)

*China:*

*50 and rising!*

**Average: 47**

# REBALANCING CHINESE ECONOMY: WHAT IS REQUIRED

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- Matching personal income growth with GDP growth
- Reforms, not government spending
  - Land reforms
  - Urban registration reform
  - Social provisions
  - Political reforms



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**THANK YOU!**