The New China Playbook: Beyond Socialism and Capitalism

ABCDE Conference

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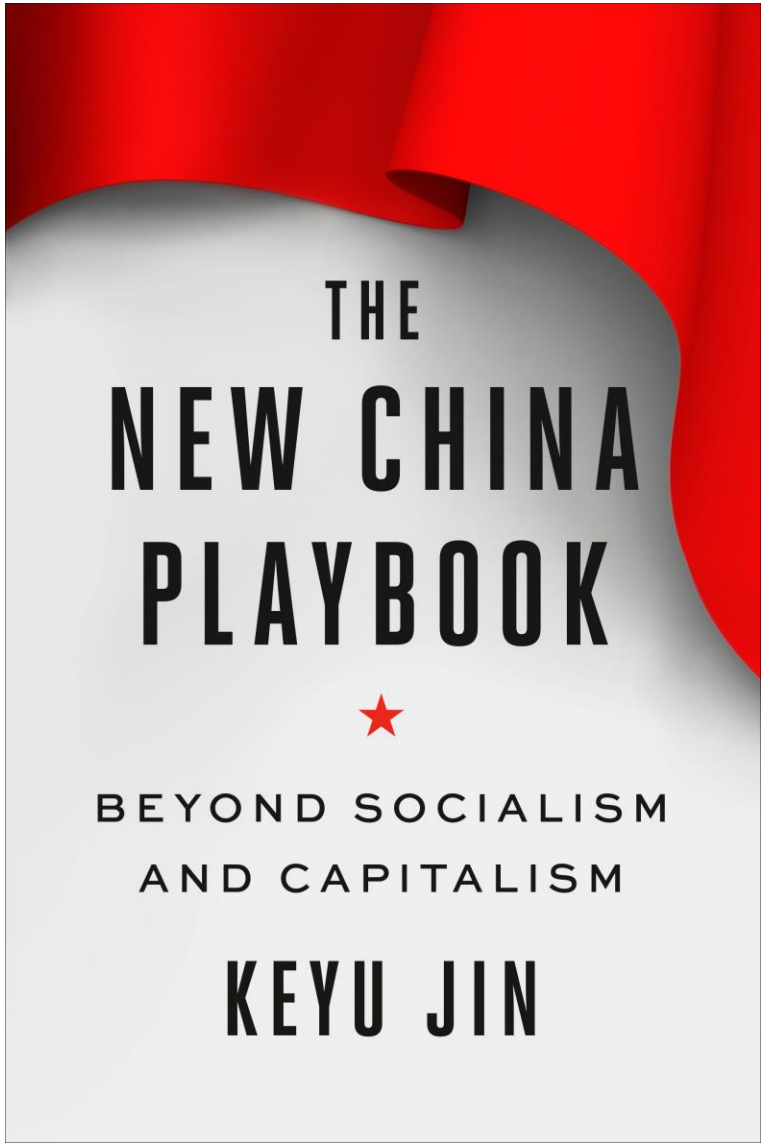
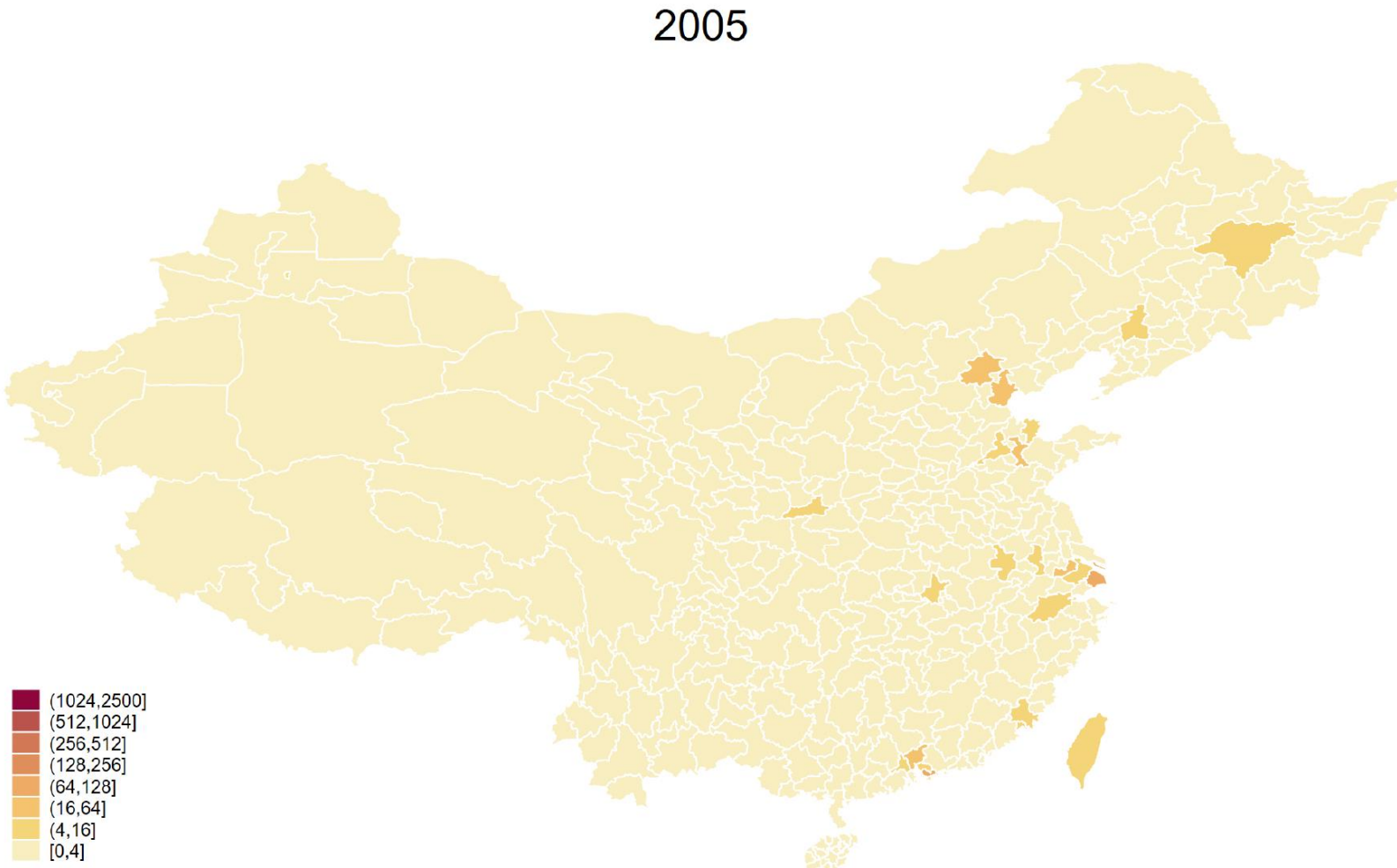
What We Get Wrong

- The ‘China Collapse theory’ and its many different editions
- More than one way of making things work
- Cultural constraints and historical legacies to understand ‘irreconcilable paradoxes’?
- A unique balance between government and industry, coordination and market mechanisms, communalism and individualism

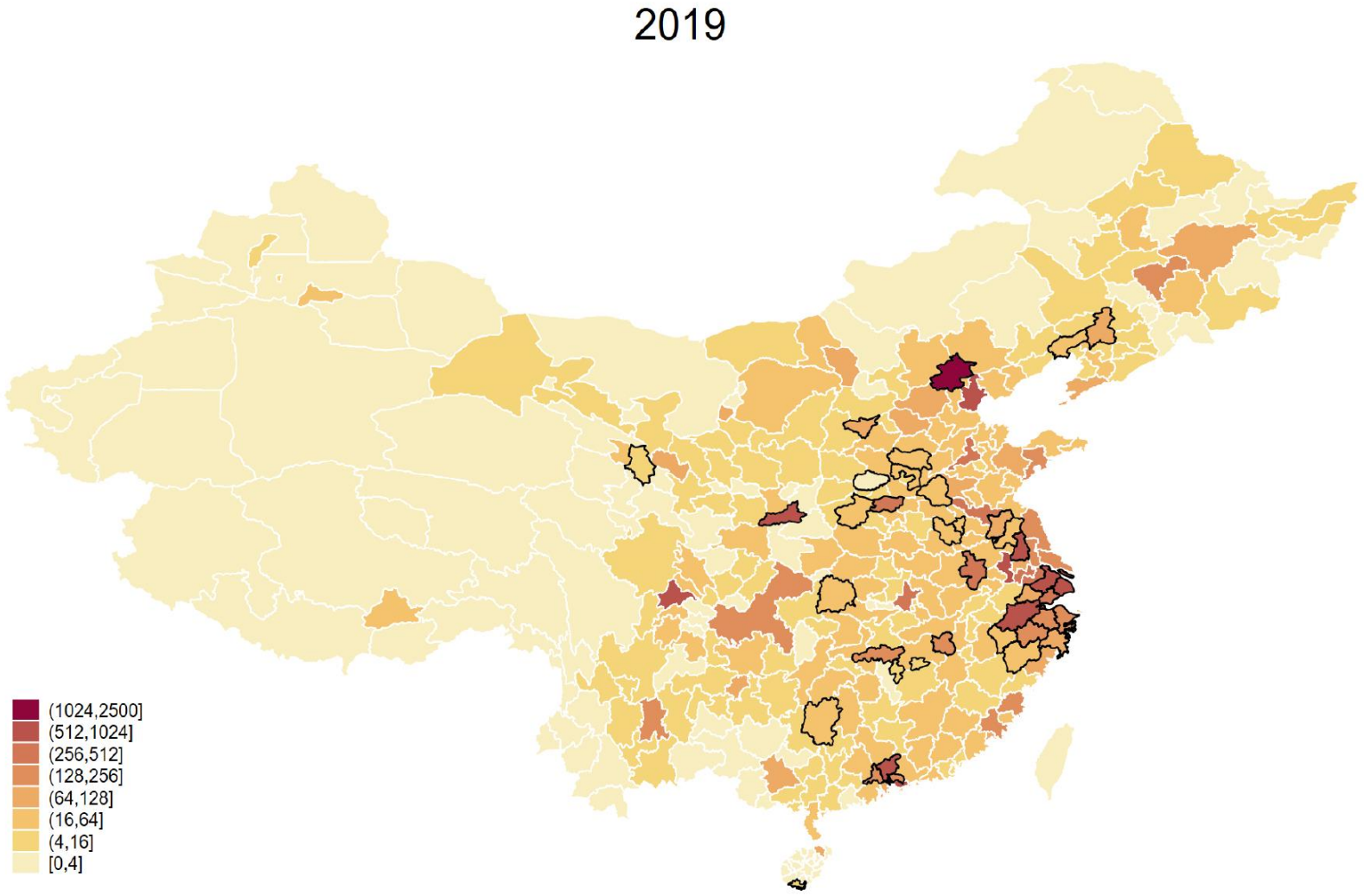


Patent Distribution at City Level: 2005



Banares-Sanchez et al. (2024)

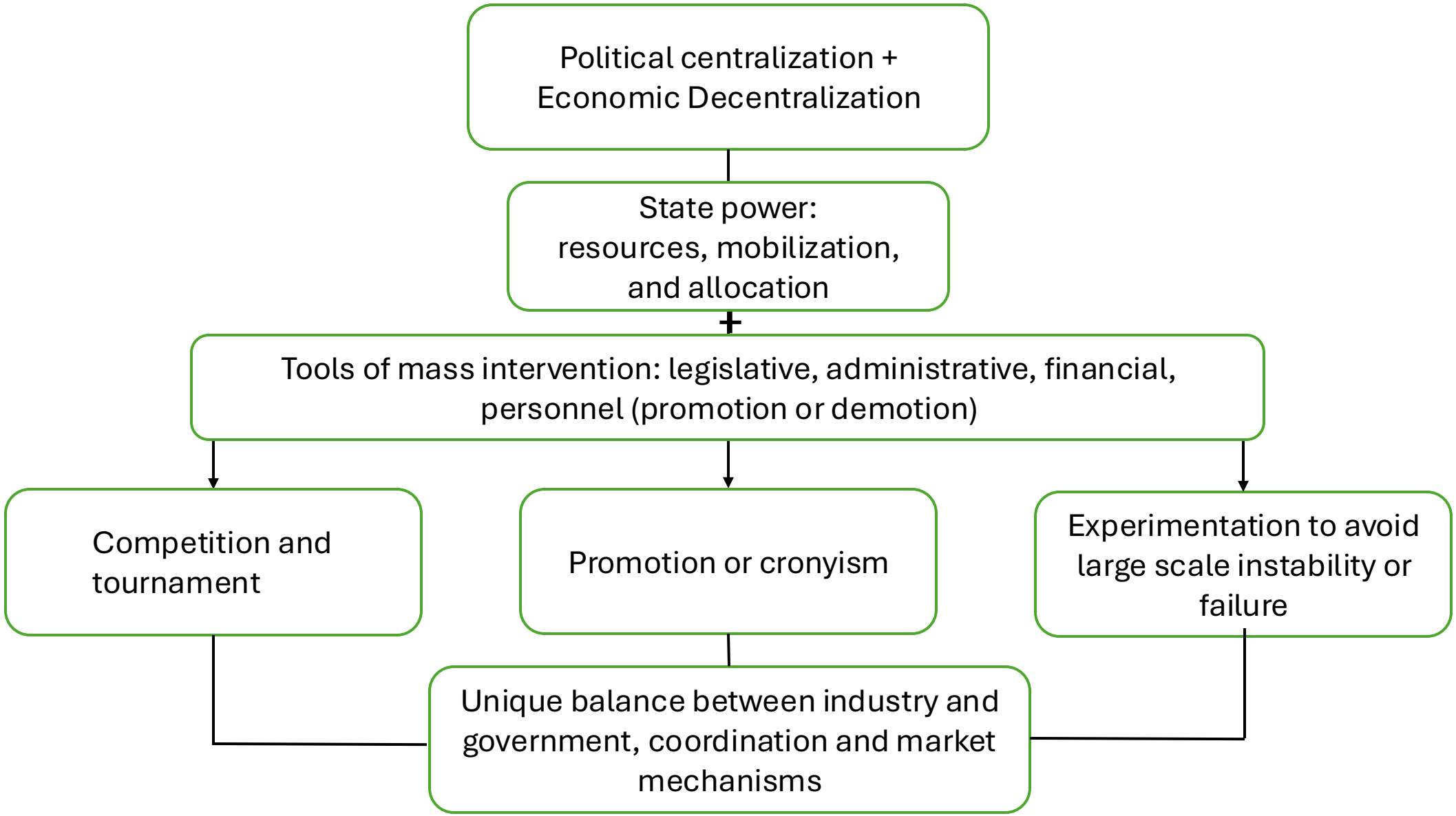
Patent Distribution at City Level: 2019



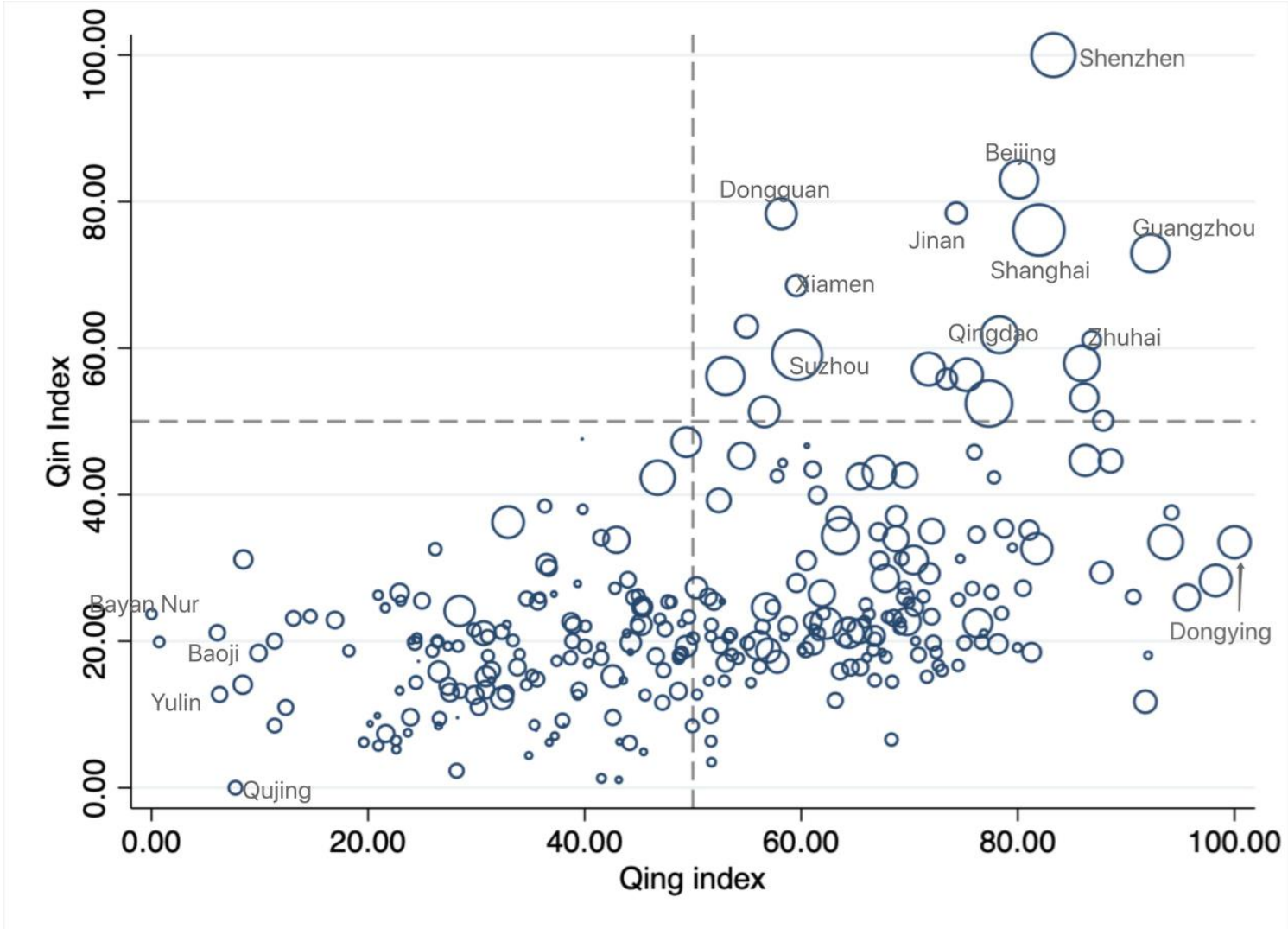
Note: black circled cities are treated by any subsidy policy

Banares-Sanchez et al. (2024)

Product	China's Share of Global Exports	China's Share of Global Production
Mobile Phones	70%	85%+
PCs	40%+	85%+
Tablets	73%	80%+
Electric Vehicles	35%	74%+
Drones	70%+	70%+
Home Appliances	66%	60%+
Cleaning Robots	50%+	80%+
AR/VR	70%+	85%+
E-Bikes	65%	90%+
Wearables	65%	72%+



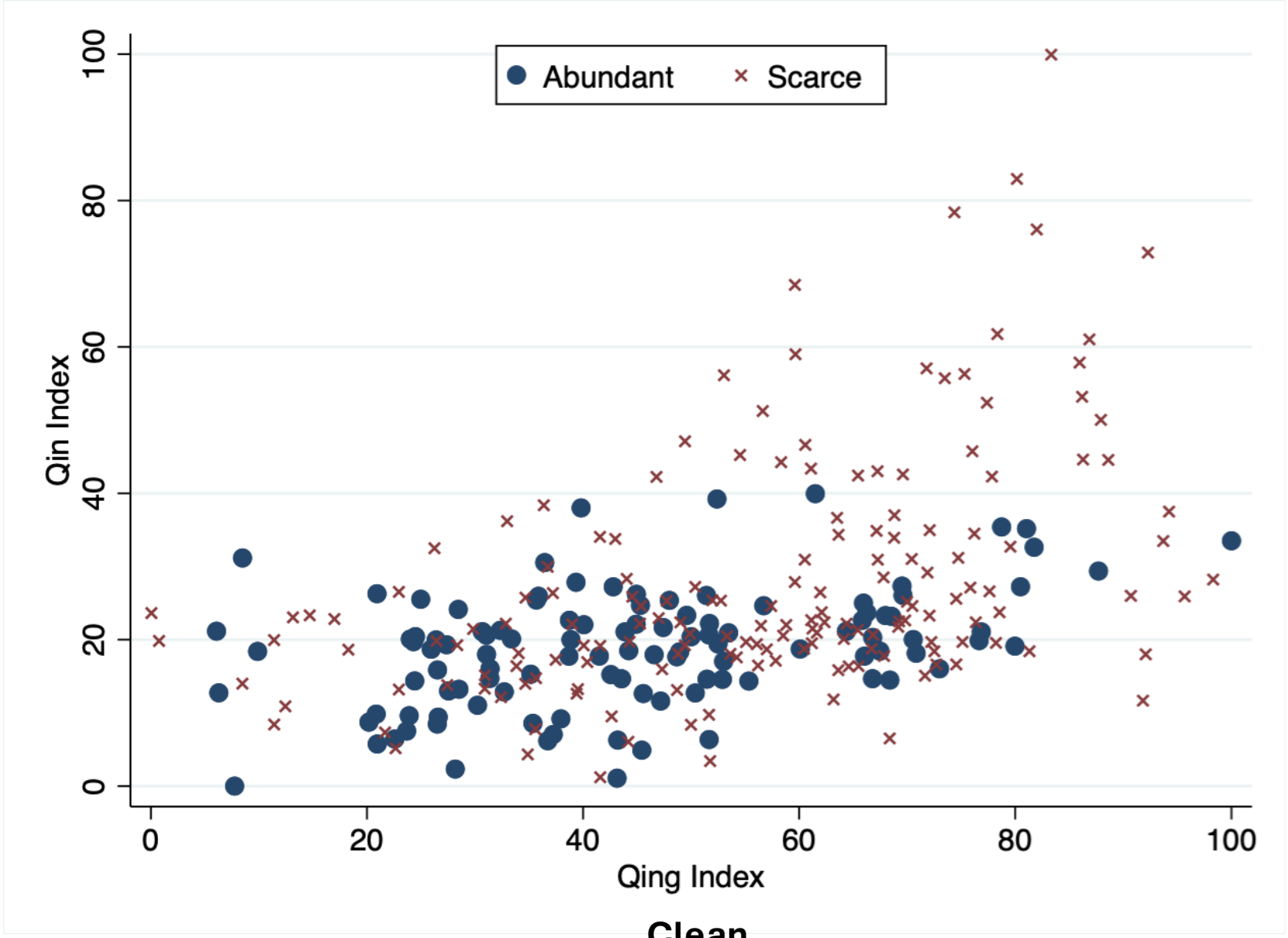
Friendly



Clean

Source: Jin, Jin, and Ren (2023)

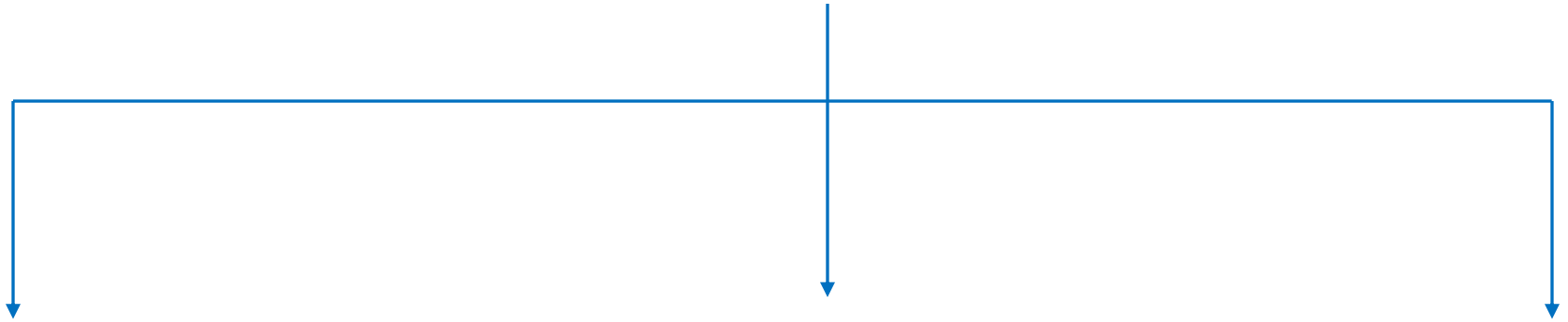
Friendly



Clean

Source: Jin, Jin, and Ren (2023)

Tools of Mass Intervention



Market access, project approval, land supply approval, administrative approval for loans,

catalog guidance, and mandatory

elimination of outdated production capacity,

among other administrative interventions

Selective support for specific enterprises, products, and technologies within the industry,

as well as regulation of the organizational form of the industry, demonstrate a strong characteristic of direct market intervention.

Deposit rate caps to subsidize firms

Preferential loan rates to SOEs

Listing requirements to go IPO

Stamp duties; Capital controls

Rules that prevent selling on the way down or buying on the way up.

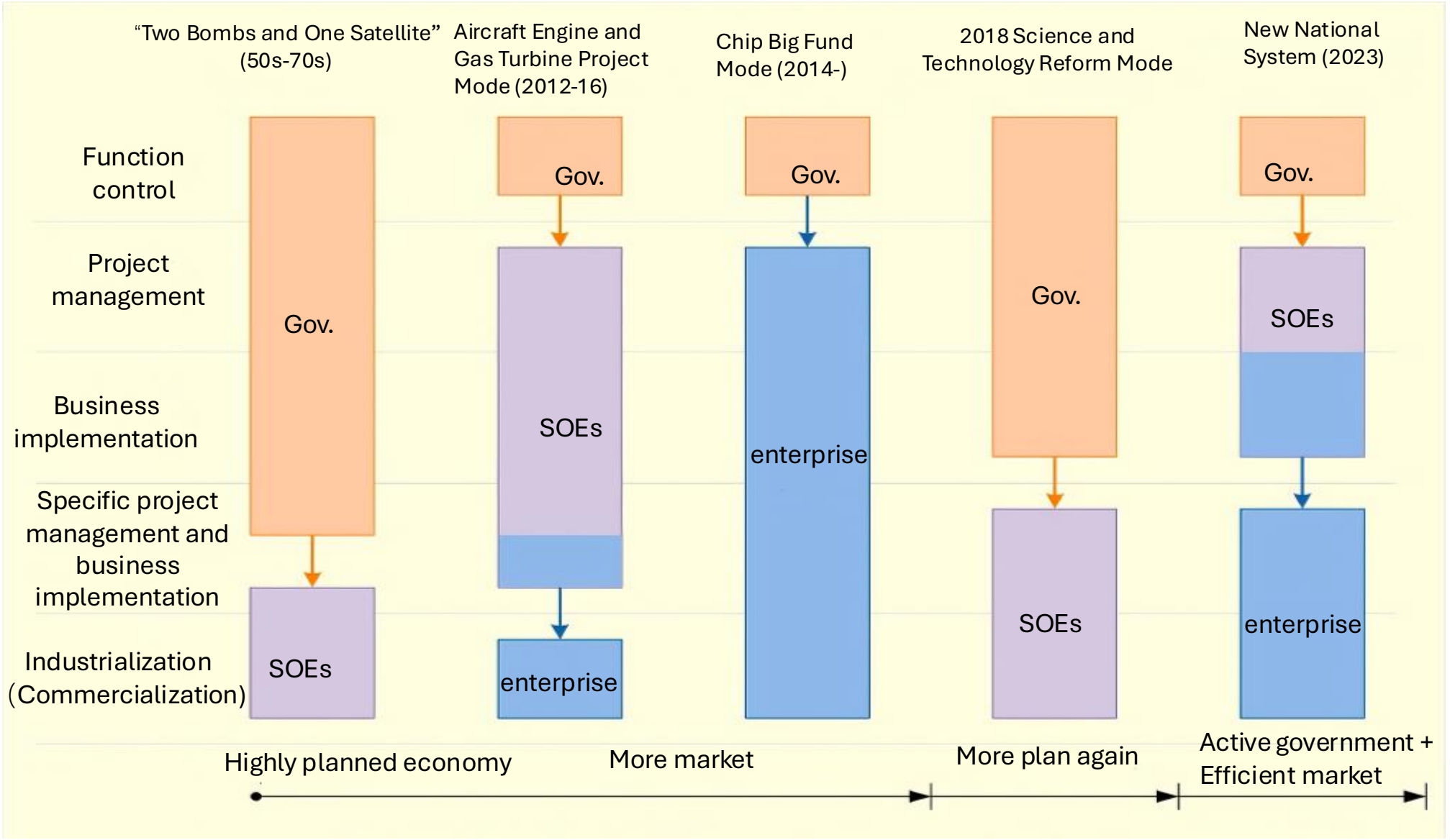
Why so many interventions?

The **financial system as a tool**: fund the government's policy agenda

Paternalism: protect inexperienced institutions and investors subject to excessive sentimental fluctuations, and maintain market stability.

Maintain **Control**, inability to let go.
Consequence: no learning among market players

Five Models of China's "Whole-of-a-Nation"



Three Pillars

Growth

1978-

- Industrialization
- Urbanization
- Exports
- Innovation and Technology

Financial Stability

2013

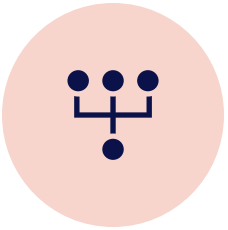
- Credit Expansion
- Shadow banking
- NPL

Social/Health/ Sustainability

2020-

- Pandemic
- Tech regulation
- Common Prosperity
- Property crackdown

Downsides



Local protectionism

Growth driven local officials overlook the environment

Distorted incentives : over-investment in infrastructure (socially excessive) and build-out of real estate; speed over quality; polluting thy neighbor (Cai et al. 2012) ; urbanization without growth

Misallocation and investment inefficiency

Unsustainable local government debt (shadow banking expansion)

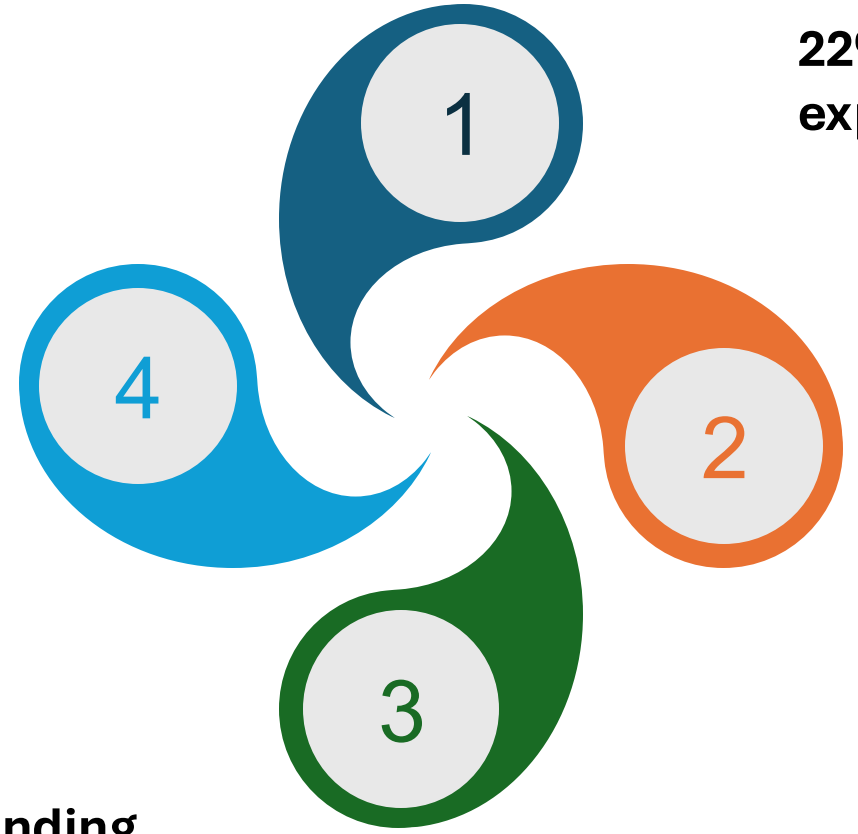
Crowding out of private firms (Huang et al. 2020) but crowding in of downstream private firms (Ru 2016)

Generational Shifts

Post 50's & 60's	Post 70's	Post 80's Buy-a- house generation	Post 90's Politically active	Post 00's
liberal and open	Materially driven, less concerned about political freedom, prioritizes safety and well-being of children; stability	Less driven by causes, more by personal, material, want to be 'middle class' , buy a house generation	Consumer, lifestyle, simple and light Self confident, proud of nation, eager to express, strong desire to have social participation Politically conservative Idealistic but realist	Little pink's Believe that country is not only great but also powerful

New Consumers

Comparing post 80's to generations before



22% higher per capita expenditure

60% higher spending on clothing per capita

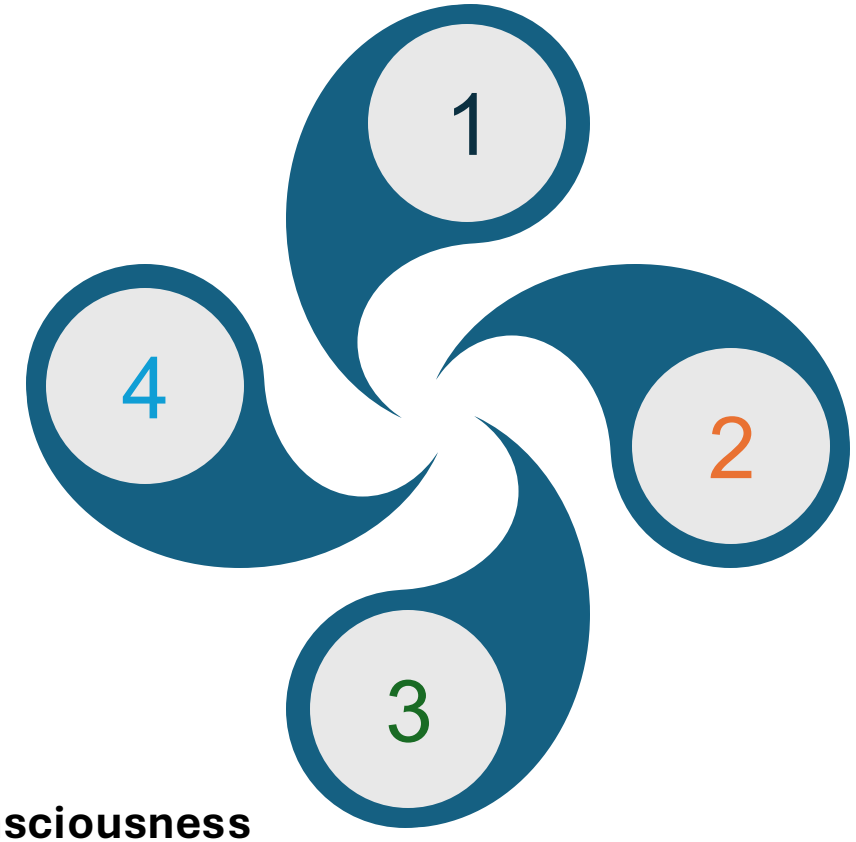
19% higher spending on food per capita

Contributes to 65% growth in consumption

New Consumers

Comparing post 80's to generations before:

Golden era for women
Share of female leadership in public companies rising:
15% of those born in 1960s, 34% for those 80's, and 42% for those born in 90's



Accounts for 85% of consumer borrowing (<35)

Average debt 2.5 times that older generations

Social consciousness and openness

Conclusion: the New Era

- From smokestack industries to high-tech and innovation
- From GDP growth to softer metric of development, and sustainable growth
- From globalization to self-reliance (on critical components)
- A new generation
- How to avoid the middle-income trap
- Common Prosperity
- From what is economically efficient to what is socially optimal