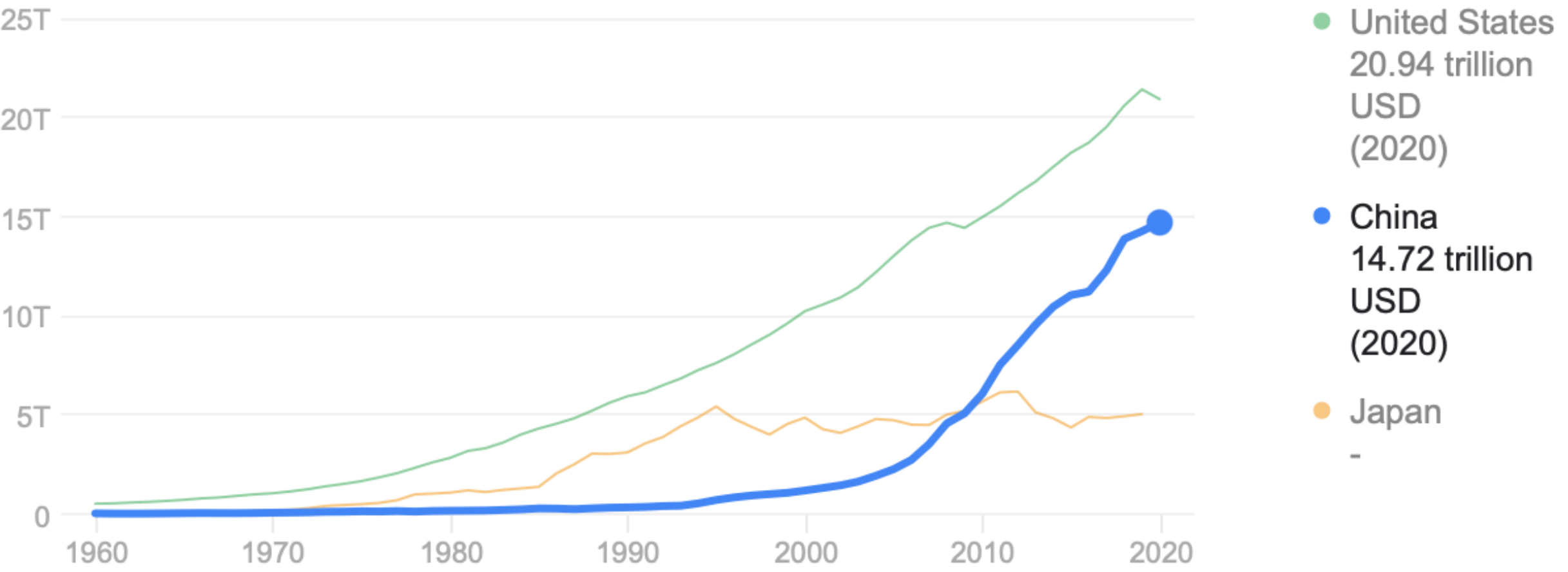


EE363 Chinese Economy

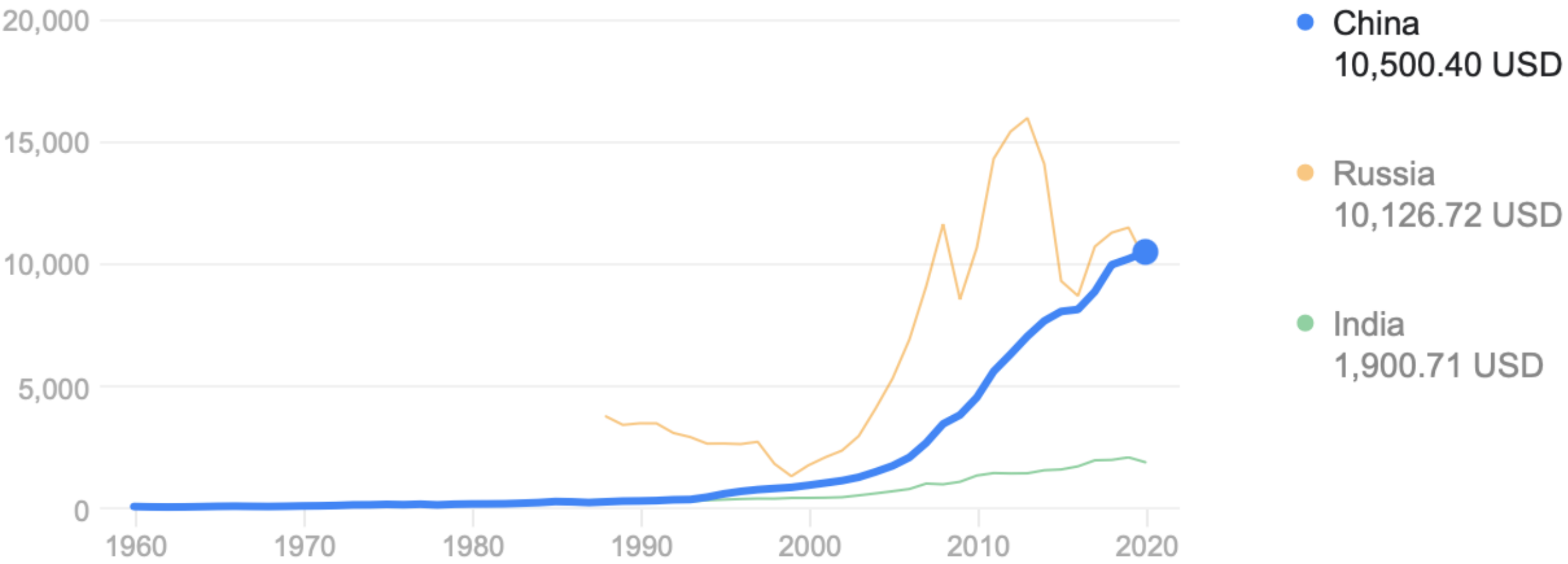
Bin Zhao

14.72 trillion USD (2020)



China / GDP per capita

10,500.40 USD (2020)





The country consists of 23 provinces, five autonomous regions, four municipalities, and two Special Administrative Regions (Hong Kong and Macau).

The basic set up

- One party, one system

Figure 1. China's National-Level Political Structure

According to China's 1982 state constitution as last amended in March 2018

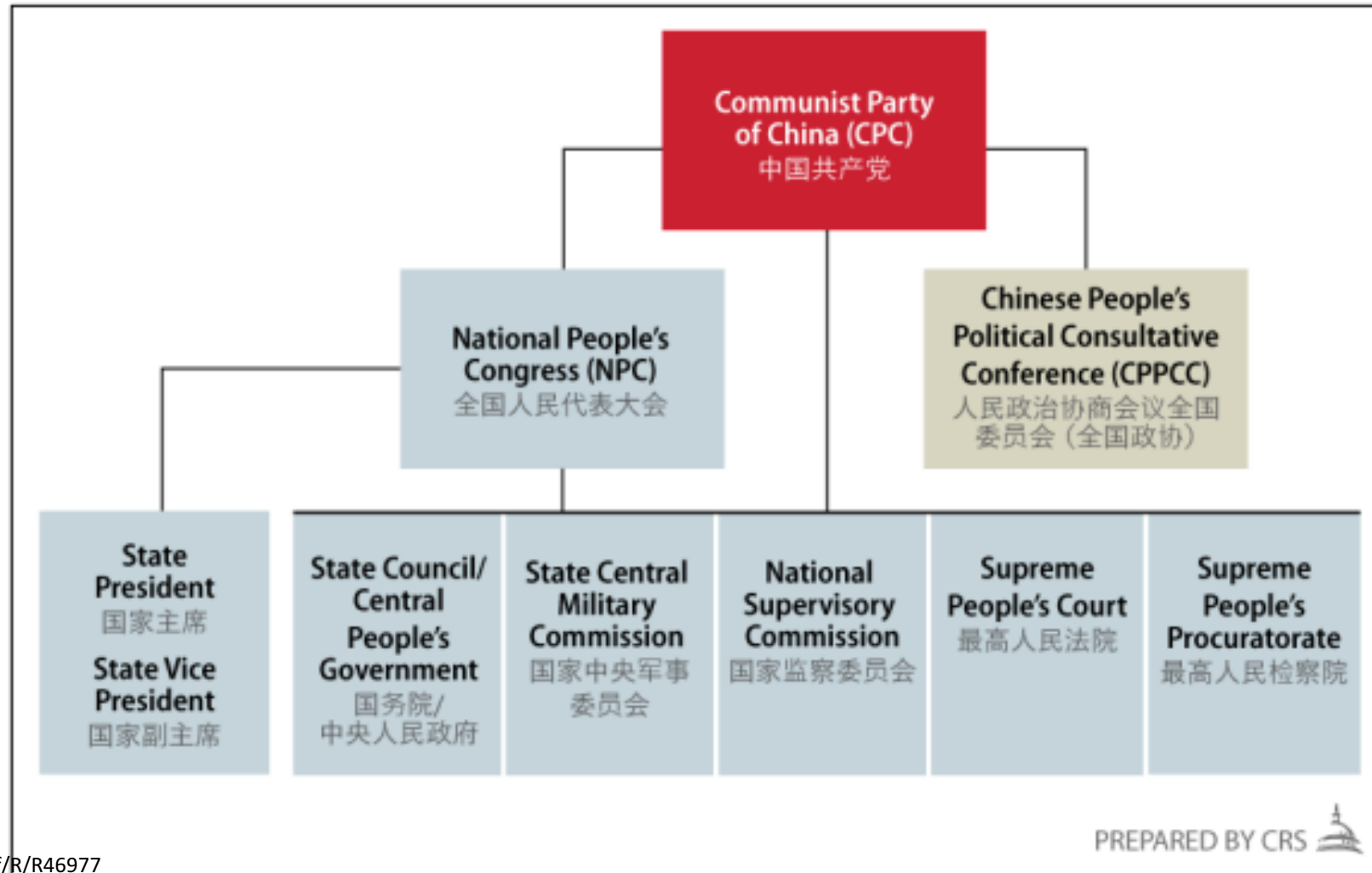


Figure 2. Leading Political Institutions at Each Level of Administration

The four institutions are known as the “four teams”; the Party provides leadership at every level

Level of Administration	Party	Legislature	Government	Consultative Body
National-level 国家级	CPC Central Committee 中央委员会	National People's Congress 全国人民代表大会	State Council 国务院/ Central People's Government 中央人民政府	National Committee of the Chinese People's Political Consultative Conference (CPPCC) 中国人民政治协商会议全国委员会
Provincial-level 省级	Party Committee 党委	People's Congress 人大	People's Government 人民政府	CPPCC 政协
Quasi-provincial-level 副省级	Party Committee 党委	People's Congress 人大	People's Government 人民政府	CPPCC 政协
Prefectural-level 地级	Party Committee 党委	People's Congress 人大	People's Government 人民政府	CPPCC 政协
County-level 县级	Party Committee 党委	People's Congress 人大	People's Government 人民政府	CPPCC 政协
Township-level 乡级	Party Committee 党委	People's Congress 人大	People's Government 人民政府	None 无
Village-level 村级	Party Branch 党支部	None 无	Village Committee 村委会	None 无

Figure 3. Communist Party of China (CPC) Hierarchy

Numbers are for the 19th Central Committee, elected for a five-year term in October 2017; solid black arrows reflect the direction of authority; dotted gray arrows reflect the formal selection process

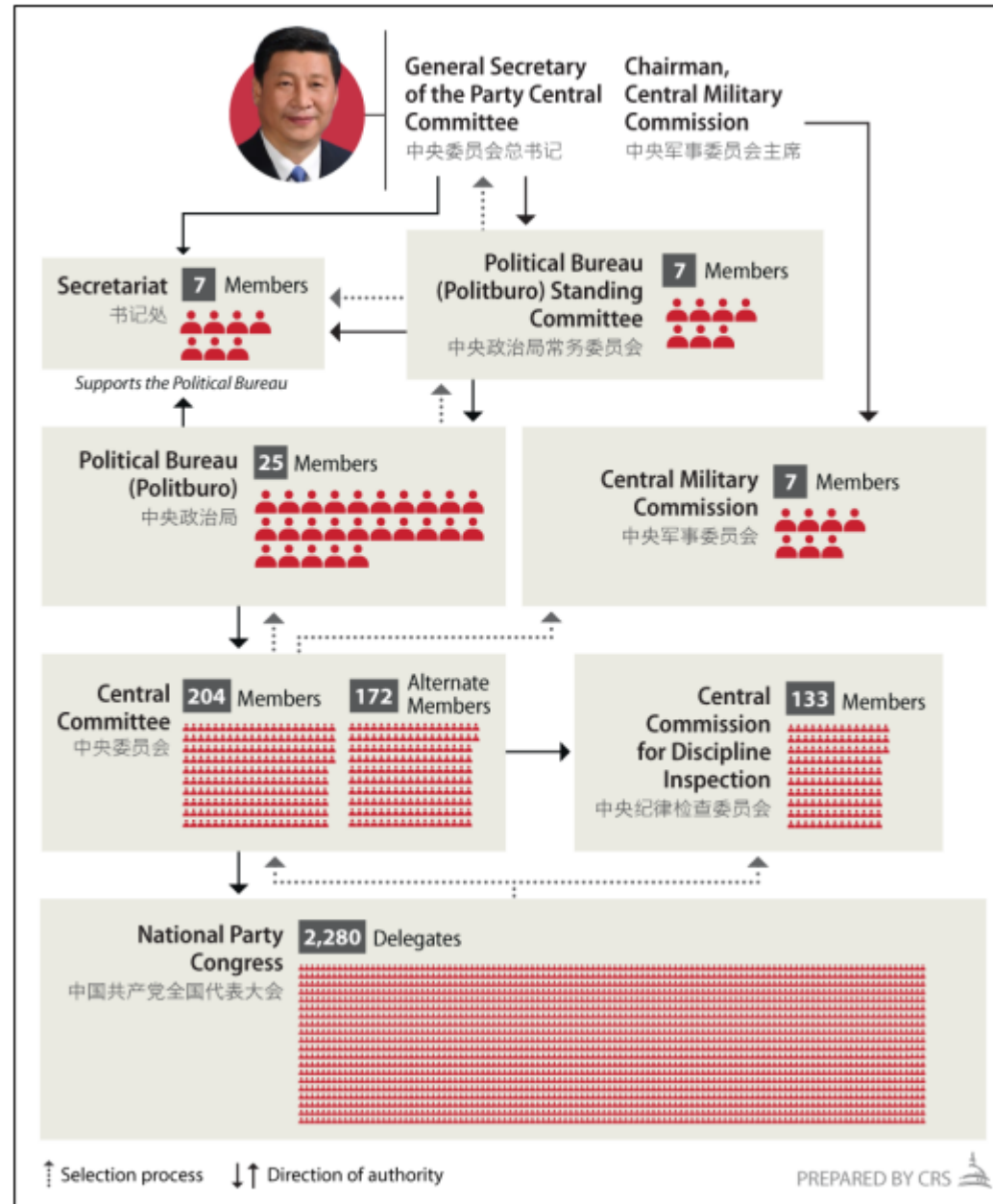


Figure 10. The National People's Congress

The NPC is China's unicameral legislature

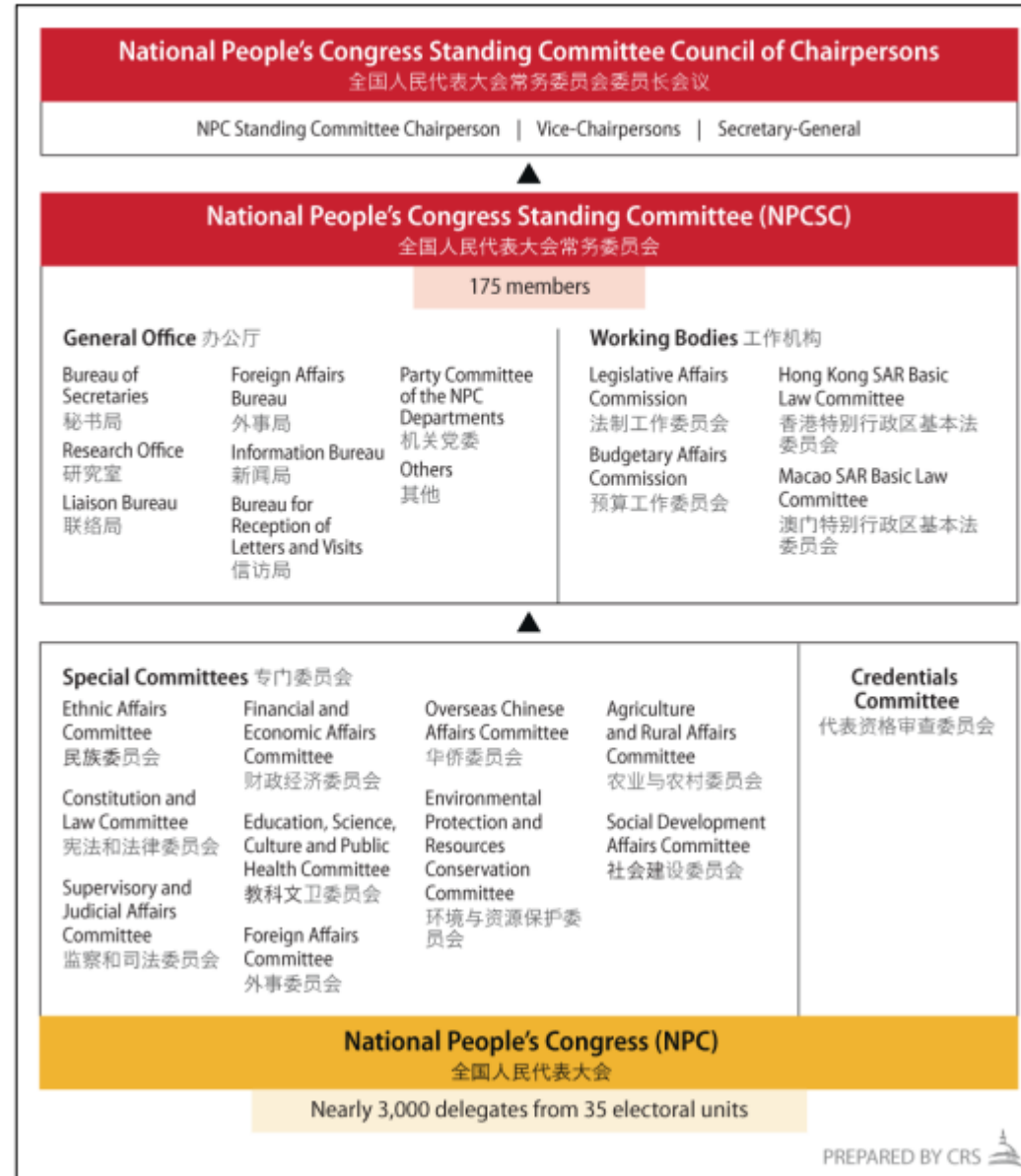


Figure 13. State Council Constituent Departments

Reflecting the March 2018 government reorganization



Figure 14. Entities Under the State Council
Reflecting the March 2018 government reorganization

Special Agency Directly Under the State Council 国务院直属特设机构 State-owned Assets Supervision and Admin. Commission of the State Council 国务院国有资产监督管理委员会
Offices of the State Council 国务院办事机构 Hong Kong and Macao Affairs Office of the State Council 国务院港澳事务办公室 Research Office of the State Council 国务院研究室

Public Institutions Directly Under the State Council 国务院直属事业单位
--

Xinhua News Agency 新华通讯社 Chinese Academy of Sciences 中国科学院 Chinese Academy of Social Sciences 中国社会科学院 Chinese Academy of Engineering 中国工程院 Development Research Center of the State Council 国务院发展研究中心 China Media Group 中央广播电视总台 China Meteorological Admin. 中国气象局 China Banking and Insurance Regulatory Commission 中国银行保险监督管理委员会 China Securities Regulatory Commission 中国证券监督管理委员会
--

Agencies Directly Under the State Council 国务院直属机构	
General Admin. of Customs 海关总署 State Admin. of Taxation 国家税务局 State Admin. for Market Regulation 国家市场监督管理总局 National Radio and Television Admin. 国家广播电视总局 General Admin. of Sport 国家体育总局 National Bureau of Statistics 国家统计局	China International Development Cooperation Agency 国家国际发展合作署 National Healthcare Security Admin. 国家医疗保障局 Counsellors' Office of the State Council 国务院参事室 National Government Offices Admin. 国家机关事务管理局

National Administrations Managed by Higher-Level State Council Entities 国务院部委管理的国家局

General Office of the State Council: - National Public Complaints and Proposals Admin. 国家信访局 National Development and Reform Commission: - National Food and Strategic Reserves Admin. 国家粮食和物资储备局 - National Energy Admin. 国家能源局 Ministry of Industry and Information Technology: - State Admin. of Science, Technology and Industry for National Defense 国家国防科技工业局 - State Tobacco Monopoly Admin. 国家烟草专卖局 Ministry of Public Security: - National Immigration Admin. 国家移民管理局 Ministry of Natural Resources: - National Forestry and Grassland Admin. 国家林业和草原局	Ministry of Transport: - National Railway Admin. 国家铁路局 - Civil Aviation Admin. of China 中国民用航空局 - State Post Bureau 国家邮政局 Ministry of Culture and Tourism: - National Cultural Heritage Admin. 国家文物局 National Health Commission: - National Admin. of Traditional Chinese Medicine 国家中医药管理局 Ministry of Emergency Management: - National Mine Safety Admin. 国家矿山安全监察局 People's Bank of China: - State Admin. of Foreign Exchange 国家外汇管理局 State Admin. for Market Regulation: - National Medical Products Admin. 国家药品监督管理局 - China National Intellectual Property Admin. 国家知识产权局
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Figure 15. Composition of the National Committee of the Chinese People's Political Consultative Conference (CPPCC)

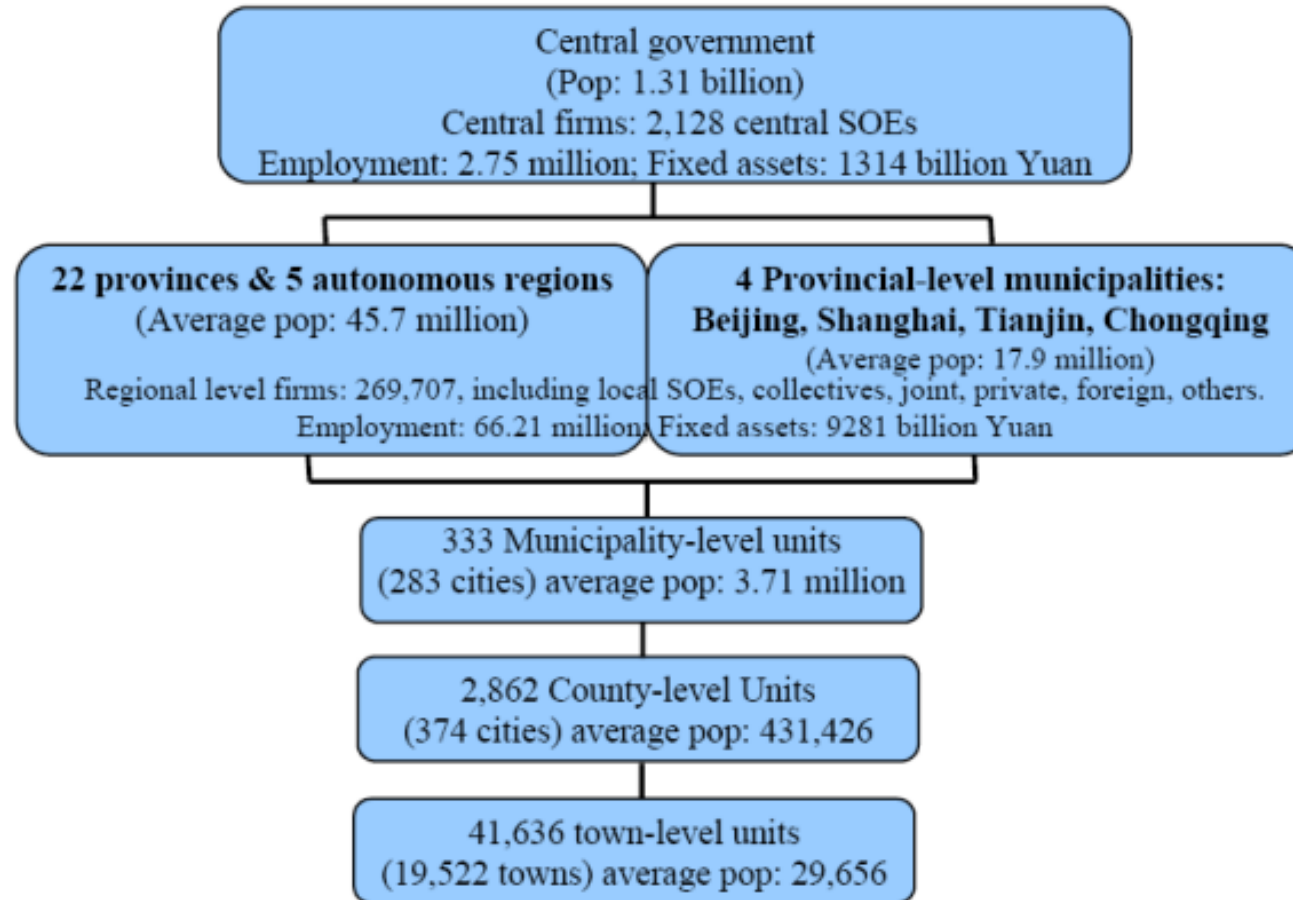
Reflecting the 13th National Committee of the CPPCC (2018-2023)

13 th National Committee of the Chinese People's Consultative Conference (CPPCC) 中国人民政治协商会议第十三届全国委员会 (2,980 members)			
Political Parties 政党		Personages Without Party Affiliation 无党派人士 (64 members)	
Communist Party of China 中国共产党 (105 members) Revolutionary Committee of the Chinese Kuomintang 中国国民党革命委员会 (65 members) China Democratic League 中国民主同盟 (65 members) China National Democratic Construction Association 中国民主建国会 (65 members) China Association for Promoting Democracy 中国民主促进会 (45 members) Chinese Peasants and Workers Democratic Party 中国农工民主党 (44 members) China Zhi Gong Party 中国致公党 (30 members) Jiu San Society 九三学社 (45 members) Taiwan Democratic Self-Government League 台湾民主自治同盟 (20 members)		Social Organizations 社会团体 Communist Youth League of China 中国共产主义青年团 (8 members) All-China Federation of Trade Unions 中华全国总工会 (63 members) All-China Women's Federation 中华全国妇女联合会 (64 members) All-China Youth Federation 中华全国青年联合会 (27 members) All-China Federation of Industry and Commerce 中华全国工商业联合会 (62 members) China Association for Science and Technology 中国科学技术协会 (42 members) All-China Federation of Taiwan Compatriots 中华全国台湾同胞联谊会 (14 members) All-China Federation of Returned Overseas Chinese 中华全国归国华侨联合会 (27 members)	
Specially Invited Personages 特邀人士		Social Circles 各界人士	
Specially invited Hong Kong personages 特邀香港人士 (124 members) Specially invited Macao personages 特邀澳门人士 (29 members) Other specially invited personages 特别邀请人士 (136 members)		Culture and Arts 文化艺术界 (125 members) Science and Technology 科学技术界 (112 members) Social Sciences 社会科学界 (70 members) Economics 经济界 (129 members) Agriculture and Forestry 农业界 (70 members) Education 教育界 (107 members) Sports 体育界 (19 members) Journalism and Publishing 新闻出版界 (46 members) Medical and Health 医药卫生界 (90 members) Friendship with Foreign Countries 对外友好界 (45 members) Social Welfare and Social Security 社会福利和社会保障界 (35 members) Ethnic Minorities 少数民族界 (104 members) Religious Bodies 宗教界 (65 members)	

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Fig 1. Regional Governance Structure of Chinese Economy



Source: NSB, 2006; 2006b; 2006c.

Centralized and Decentralized

- 1. the system
 - Ultimate authority resides in the Communist Party
 - --many details not fully institutionalized but operate consistently most of the time



Centralized and Decentralized

- 2. One-party state
 - Government, courts, media, companies(both state-owned and private), universities, and religious organizations---top officials in all these organizations are appointed by the party.
 - The party exercises its control in a flexible, not a dogmatic way

Centralized and Decentralized

- 3. formally centralized, but in practice highly decentralized
 - China's observed level of decentralization is consistent with the behavior of a federal democracy----share of government expenditure that takes place at the subnational level.
 - Decentralization of production
 - Local experimentation and a high degree of latitude for local officials in interpreting and executing central directives --- special economic zones, etc...



Table 3. The Effect of Economic Performance on the Turnover of Provincial Leaders
(Ordered Probit Regressions)

	dependent variable: turnover (0=termination, 1=same level, 2=promotion)					
	(1)	(2)	(3)	(4)	(5)	(6)
Provincial annual GDP growth rate	1.615** (2.05)	1.581* (1.87)				
Provincial average GDP growth rate			4.727*** (4.34)	4.540*** (3.90)		
Provincial average per capita GDP growth rate (A)					3.001** (2.10)	
Provincial average per capita GDP growth rate of the immediate (A)-(B)					-3.584** (2.36)	3.309*** (3.41)
Age		-0.026* (-1.91)		-0.023* (-1.68)	-0.071*** (6.81)	-0.070*** (6.77)
Age65		-0.974*** (-5.27)		-0.976*** (-5.25)	-0.303** (2.07)	-0.303** (2.07)
Education		0.154 (0.96)		0.187 (1.17)	0.183 (1.48)	0.184 (1.5)
Central connection		0.384*** (2.79)		0.404*** (2.89)	0.082 (0.74)	0.085 (0.77)
Tenure		-0.053* (-1.74)		-0.055* (-1.78)	-0.062** (2.44)	-0.062** (2.45)
Lagged per capita GDP (million yuan)		0.080 (0.43)		0.010 (0.05)		
Cutoff point 1	-1.320*** (-3.67)	-3.162*** (-2.98)	-2.850*** (-2.64)	-2.850*** (-2.63)	-6.992*** (8.42)	-6.929*** (8.66)
Cutoff point 2	1.621*** (4.63)	0.106 (1.01)	0.455 (0.43)	0.455 (0.43)	-3.736*** (4.64)	-3.662*** (4.7)
Number of observations	864	864	864	864	1227	1227

Note: The numbers in parentheses are t-ratios based on robust standard errors. The significance levels of 1%, 5% and 10% are noted by ***, ** and *. All regressions include the provincial and year indicators. Columns (1)-(4) are based on Li and Zhou (2005), and columns (5) and (6) are based on Chen, Li and Zhou (2005).

The most decentralized.....

- by the proportion of fiscal revenue and expenditure handled by local governments

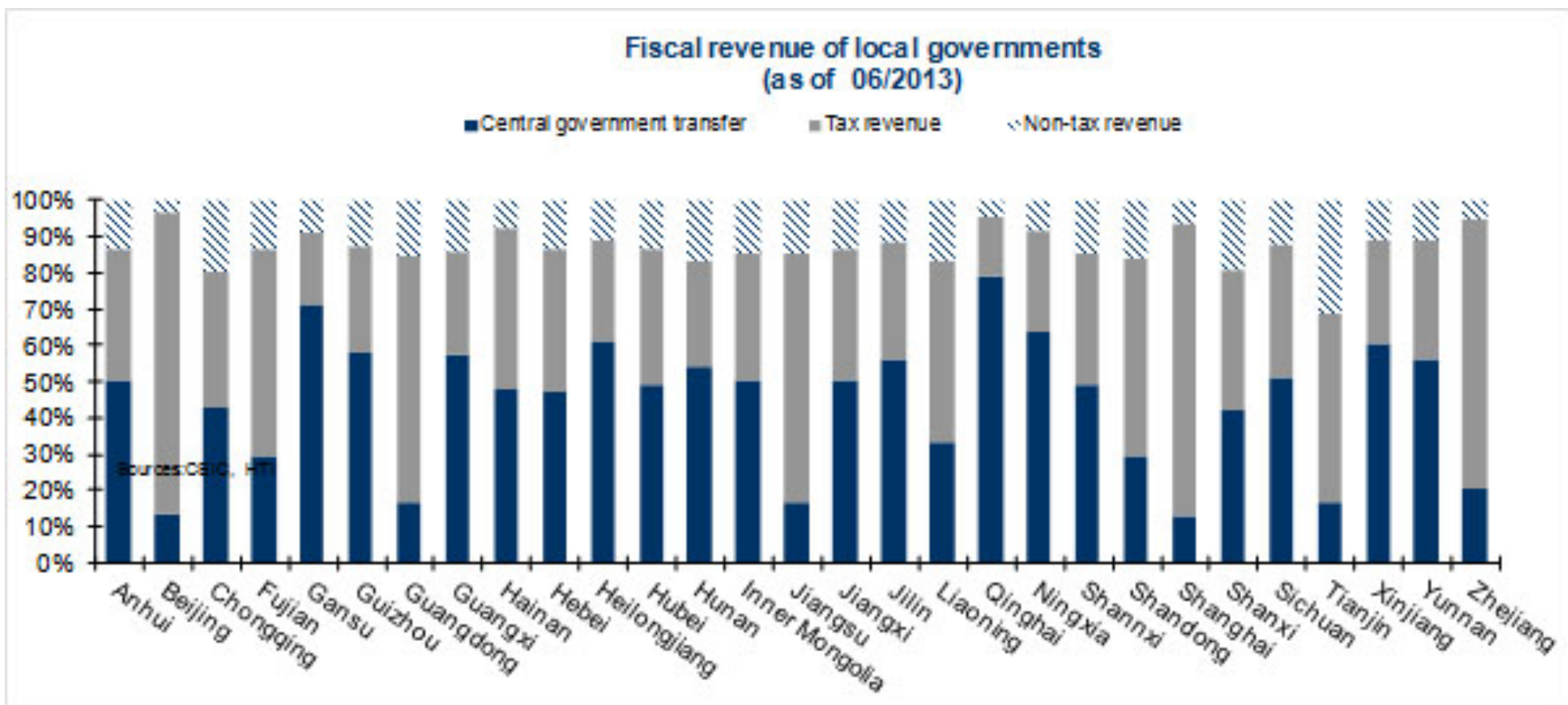
Table 6.1 The Most Decentralized Country: Local Government Shares of Fiscal Revenue and Expenditure, %

	Revenue (%)	Expenditure (%)
Developing countries	9	14
Transitional (post-Communist) countries	17	26
OECD	19	32
China	40	73

Source: Lou 2008.

Yet...

- Tax policies are mostly determined by Beijing
 - Localities have little leeway to adjust these parameters
- Local government officials rotation
- Local government debt
- → local business protection, etc. ..





Car plate management system



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1994 tax reform--Background

- The pre- 1994 phase was one of rapid decentralization
- most revenue consisted of operating surpluses from state- owned enterprises (SOEs) rather than taxes
- This revenue was collected, and remitted to the central government. The center then sent money back down to the provinces each year to fund the next year's investment quota and to cover the administrative expenses of the local governments

1994 tax reform--Background

- Two challenges:
- 1: began to devolve the responsibility for investment decisions down to the enterprises.
- 2: to encourage local officials to promote market- driven economic activity, allowed localities to retain any tax revenues they collected above a fixed annual quota that had to be sent to Beijing.
- => to reduce the roles of state planning, central control, permit market forces greater play

1994 tax reform--Background

- Total government revenues fell from over 30% of GDP in 1978 to less than 11% in 1994
- SOEs no longer sent their profits to the treasury.
- central government may not have enough revenue to finance its activities, keep localities in line and enforce national policies.

1994 tax reform

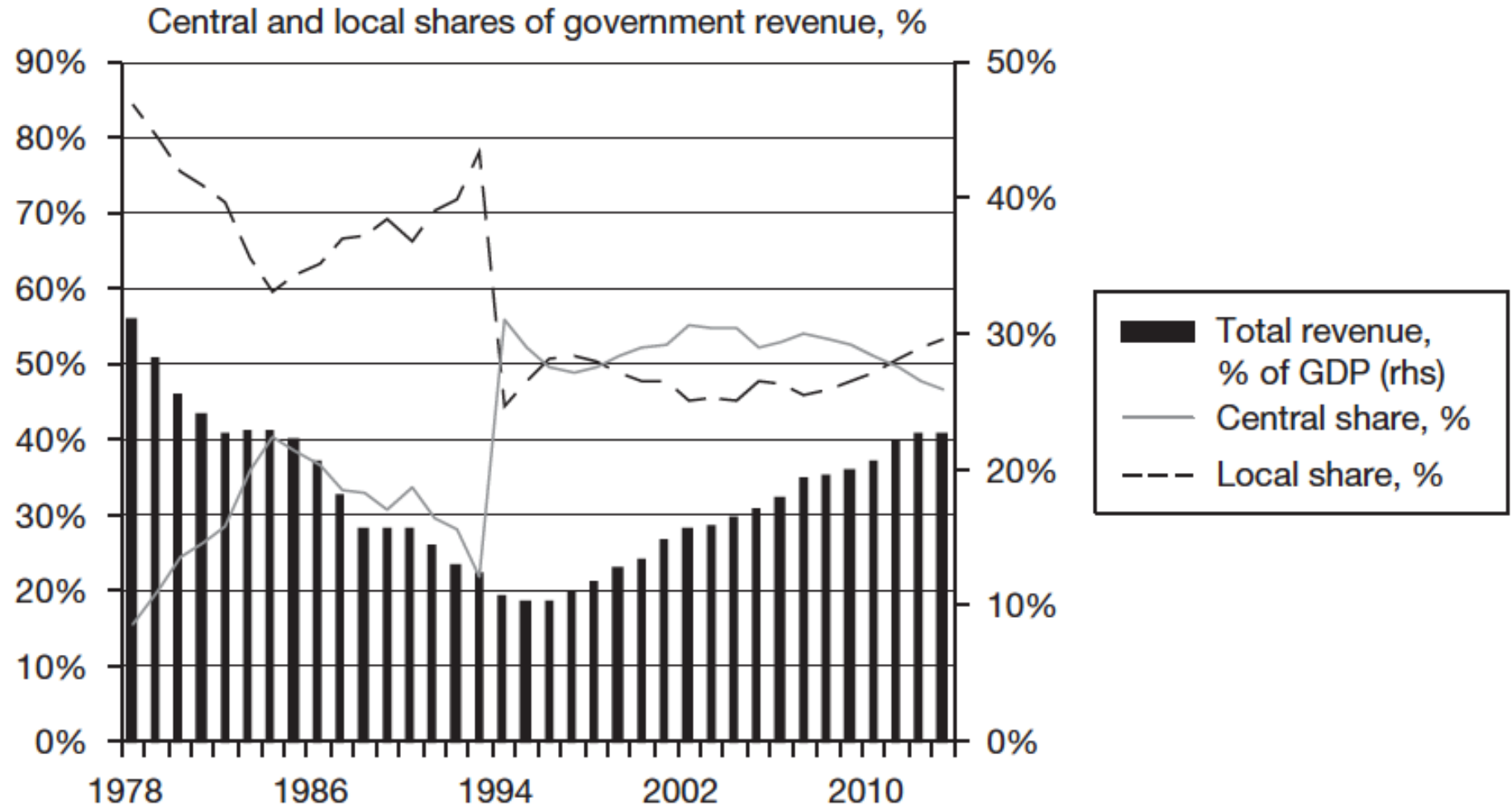


Figure 6.1 Government Revenue

Source: NBS/CEIC.

1994 tax reform

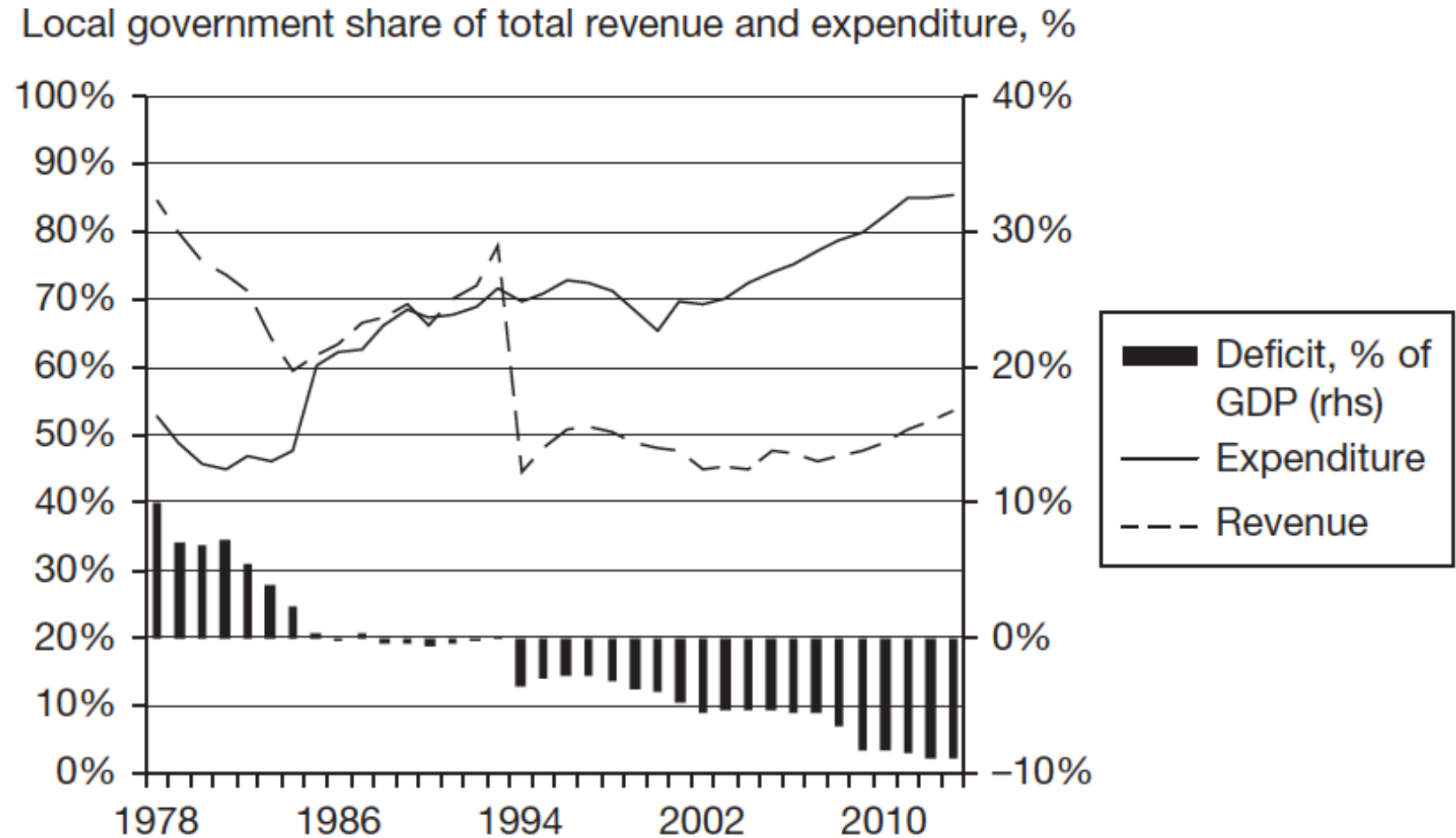


Figure 6.2 Local Funding Gap

Source: NBS/CEIC.

1994 tax reform

- VAT: 75% central, 25% local
- Local: All the revenue from the “business tax”(a tax on enterprise revenues) , corporate income tax paid by locally controlled firms.
- Central: Centrally controlled SOEs corporate income tax
- ➔
- 1. increase total government revenue
- 2. ensure that the central government directly controll half or more of those revenues

Comparison and lessons learnt from others

- Making a transition from a centrally planned economy to a more market-driven one
- “Development is the only iron law”
- Dynamic economy and tightly controlled political structure are complementary to each other