

Challenges for the Stability of the Chinese Economic Model

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1. Introduction

→ Is China's boom about to come to an end?

- Assumption: We need to know more about the institutional foundations for long-term growth in order to answer this.
- Conclusion: Cautious against hasty speculations about destabilization

2. Theoretical vantage points

- Extended Comparative Capitalisms perspective (IPE & CPE)
- Historical institutional analysis (path stability/change)
- Mixing methods

2. Theoretical vantage points

Analysis of

- Key institutional domains & their complementarities
- Role of the state across institutional domains
- Domestic market-international integration nexus
- Dominant mode (or not) of economic coordination

SME model of Capitalism

Type of capitalism	Liberal capitalism	Coordinated Capitalism	Dependent Capitalism	State-permeated Capitalism in China
International integration	Linked to liberalized global economy, expansion via financial markets	Highly integrated in global production and trade, limited into financial markets	Full orientation towards global product markets	Selective integration, cautious against global financial markets
Dominant mode of coordination	Competitive markets and formal contracts	Interfirm networks and associations	Hierarchies in multinational corporations	Reciprocity within private-public growth alliances (vs. all-powerful, centralised steering bureaucracy)
Corporate governance	Outsider control: minority shareholders	Insider control: concentrated shareholders	Control by headquarters of multinational corporations	Insider control by national owners and state actors
Finance for investment	Domestic and international capital markets	Domestic bank lending and internally generated funds	Foreign direct investments and foreign-owned banks	Internal funds and state-owned banks
Industrial relations	Pluralist, market based, few collective agreements	Corporatist, rather consensual, sectoral or national-wide agreements	Appeasement of skilled labor, company based agreements	Segmentation, atomized labor
Education and training	Promotion of transferable skills	Highly sophisticated VET schemes for specialized education	No provisions beyond basic education	Advanced basic education plus segments of specialized skills
Transfer of Innovation	Market-driven	Inter-company co-operations and business associations	Intra-firm transfer within multinational corporations	Reverse engineering and adaptation, state-permeated innovation efforts
Comparative advantage	Global product and capital markets, radical innovation	Global product markets, incremental innovation	Weak domestic product markets, export orientation	Strong domestic markets for medium-tech products

3. Factors for long-term growth

Near consensus on:

- Historical “advantages of backwardness” (e.g. productivity gains from transformation of rural into industrial labor)
- Successful strategy of selective international integration (supported by good timing and geographical factors & capital overaccumulation in the Global North)

→ This is not the whole story...

3. Factors for long-term growth: Institutional „fit“ in the 2000s

Corporate Governance/Finance for Investment domains:

- Firms can calculate on an enduring national control of enterprises, mostly through insiders, and preferential national networks of finance for investment

Industrial Relations/Education/Innovation domains:

- Cheap, relatively disciplined, and adequately skilled mass labor force; complemented by an increasing output of higher skilled labourers & progress in innovation capacity building

3. Factors for long-term growth: Institutional „fit“ in the 2000s

Economic coordination and expectational stability:

- Coordination by (competing) local private-public growth alliances makes for “productive cronyism” + further stability through strong central state

Key comparative advantage:

- Medium-tech production for large domestic markets

4. Destabilization?

→ Distinguish which destabilization factors are of primary significance:

- Destabilization by capital flight and export stagnation? Financial liberalization?
- Corporate Governance/Finance for Investment: Overinvestment and debt crisis?
- Industrial Relations/Education/Innovation: Middle-income trap?
- Economic coordination: Corruption and the end of “productive” cronyism?

Market share of Foreign Investors (FI) in China's largest industries, 2001-2011.

Ratio of FI gross Industrial Product/ total gross Industrial Product	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Extraction of Petroleum and Natural Gas	7,5%	7,8%	7,3%	-	7,8%	7,4%	7,3%	7,6%	7,3%	6,8%	6,3%
Textiles	33,9%	33,6%	35,0%	-	25,5%	24,8%	24,0%	22,9%	21,9%	21,3%	21,1%
Fabricated metal products	35,7%	35,9%	34,9%	-	36,5%	34,9%	34,8%	30,9%	25,1%	25,3%	24,4%
Food and Beverages	23,6%	23,4%	23,7%	-	23,6%	25,3%	25,0%	24,2%	22,7%	21,1%	20,9%
Chemical Products (incl. pharmaceuticals)	22,0%	22,1%	22,8%	-	25,2%	26,3%	26,8%	26,9%	26,7%	26,6%	25,5%
Machinery and Equipment	19,9%	21,5%	22,5%	-	26,1%	26,7%	27,2%	26,3%	23,3%	23,8%	22,8%
Transport Equipment	30,9%	31,8%	40,4%	-	42,8%	46,1%	45,5%	44,8%	44,4%	44,4%	44,0%
Computers, electronic and optical products	53,6%	53,2%	56,1%	-	61,0%	59,9%	60,7%	58,3%	55,0%	54,4%	53,1%
Production and Supply of Heat and Electric Power	17,7%	18,3%	18,1%	-	10,6%	8,8%	8,5%	8,3%	7,7%	6,6%	6,6%
Non-metallic mineral products	19,1%	18,8%	17,0%	-	18,3%	18,3%	18,4%	17,0%	14,9%	14,2%	13,1%

Source: China Economic Information Network, <http://db.cei.gov.cn/>.