NEW BOOK BY NICHOLAS R. LARDY FINDS PRIVATE BUSINESSES ARE THE DRIVERS OF CHINA’S ECONOMIC GROWTH

WASHINGTON—In *Markets over Mao: The Rise of Private Business in China*, Nicholas R. Lardy’s analysis shows the economic reform process that began in the late 1970s has transformed China from a state-dominated economy into a predominantly market economy.

“America’s preeminent watcher of China’s economy, Nick Lardy, makes a compelling case that the market has mattered more than the direction of the state for China’s success,” said Lawrence H. Summers, former US Treasury Secretary and director of the National Economic Council who offered advance praise of the book before its release on September 10.

Private firms have displaced state firms in wide swaths of the economy, in the process becoming the major source of economic growth, the sole source of job creation, and the major contributor to China’s still growing role as a global trader. Contrary to the widely held view that state enterprises resurged during the global financial crisis and its aftermath, Lardy shows that in industry private firms continued to grow twice as fast as state companies.

“Put simply, the more private business has grown in China, the more China has grown,” said Adam S. Posen, president of the Peterson Institute. “Nick Lardy’s research proves there is no Chinese alternative model to market capitalism. The secret of China’s success is indeed promoting markets over Mao.”

Private firms have displaced state firms in part because they are far more productive and thus able to fuel their growth with retained earnings. In addition, private firms are getting better access to bank loans and other sources of finance. “The popular image of state banks lending overwhelmingly to state companies could not be more misleading,” said Lardy. “This study explains that in recent years, Chinese banks have lent almost twice as much to private as opposed to state companies.”

Lardy also shows that the popular perception that the government and the party loom large is largely mistaken. The number of government workers per thousand residents in China is only a third the level in France, less than half that in the United States, and roughly the same as Mexico, Turkey, and South Africa.

While agriculture and almost all of manufacturing have been transformed by the rise of private businesses, restrictions on entry by private firms mean inefficient SOEs continue to dominate upstream oil and gas as well as key services industries, including finance, telecommunications, and modern business services.
Lardy argues that China’s current leadership of President Xi Jinping and Premier Li Keqiang will follow through on their commitments to further enhance the role of the market and eliminate most monopolies. This will allow more efficient private firms to gradually displace state enterprises, particularly in services, allowing China to sustain a relatively high rate of growth even as credit creation and investment growth moderate.

“For three decades, Nick Lardy has consistently recognized the cutting edge changes in China’s economy,” said Robert B. Zoellick, former World Bank president, US Trade Representative, and US Deputy Secretary of State. “He has done it again. At a time when the new conventional wisdom is that the Chinese dragon is deploying ‘state capitalism’ to challenge the international market economy, Lardy has mined the data to discover China’s real driving engine: its private sector.”

*Markets over Mao: The Rise of Private Business in China*
Nicholas R. Lardy
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**About the Author**

Nicholas R. Lardy, the Institute’s Anthony M. Solomon Senior Fellow, has been called “everybody’s guru on China” by the *National Journal*. He is the author of *Sustaining China’s Economic Growth After the Global Financial Crisis* (2012). He joined the Institute in March 2003 from the Brookings Institution, where he was a senior fellow in the Foreign Policy Studies Program from 1995. Before Brookings, he was the director of the Henry M. Jackson School of International Studies at the University of Washington from 1991 to 1995. From 1997 through the spring of 2000, he was also the Frederick Frank Adjunct Professor of International Trade and Finance at the Yale University School of Management.

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