

## MODERN CHINA

Xu, "Fundamental Instns" (JEL 2011)

How has China grown without good instns  
(legal system, well-defined transferrable property rights, legal financial markets, etc.)

### Good regional government

Local governors have unchecked power within region  
Semi-formal & informal enforcement of contracts,  
property rights (e.g. "red hats"), little expropriation.  
Leasing, semi-privatization of state-owned enterprises.  
Something that doesn't work well: land.

But why do local rulers make good choices?

"RDA regime."

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## Xu (cont.)

### "Regionally decentralized authoritarian" (RDA) system

Regional officials appointed from center, monitored, rotated.

Center's goals: regime survival (like Empire)

Center believes this requires ec devp. (unlike Empire)

Regional officials in tournament.

Promotion if meet performance targets:

- economic development

- tax revenue

- social order

Won't work if multiple, unquantifiable, conflicting goals.

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Huang, "How Did China Take Off?" (JEP 2012)

- Rural reform - the key
- What "township & village enterprises (TVEs) were
- Financial liberalization in 1980s, reversed in 1990s

### TVEs

Most were simply private businesses, not govt.

### Finance

Liberalization in 1980s:

- rural credit cooperatives, local control
- private banking ("informal") allowed

After Tiananmen massacre, reversed to channel funds toward big govt. projects