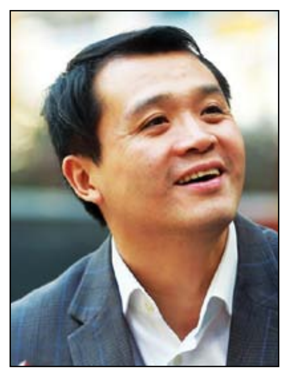
Twin engines of growth

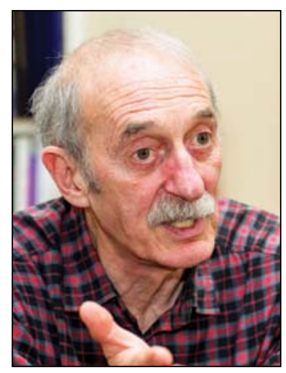
President Xi stresses the important role of State-owned enterprises and the private sector in driving China's economy forward

Customers visit a branch of China Mobile in Wuhan, in Central China's Hubei province. PHOTOS PROVIDED TO CHINA DAILY

Wang Qing, professor of marketing and innovation at Warwick Business School in the UK.



Zhu Ning, professor of finance at Tsinghua University.



George Magnus, leading commentator on China's economy and associate at the Oxford University China Centre.

Peter Williamson, professor of international management at Judge Business School at Cambridge University.

By **ANDREW MOODY**
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President Xi Jinping has re-emphasized the importance of State-owned enterprises (SOEs) as well as the private sector to the success of the Chinese economy.

He said during a recent visit to Northeast China that it is wrong to "bad-mouth" China's SOEs. The president was speaking to workers at Liaoyang Petrochemical, a subsidiary of China National Petroleum Corp (CNPC), the State-owned gas and oil giant on Sept 27.

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It was not the first time he has stressed the importance of SOEs to China's economy. He also did so in his report to the Communist Party of China's 19th National Congress in October last year.

On the same visit to Liaoning province, Xi also pledged the Party's "care and support" for the private sector, which has been beset in recent months by funding issues.

Xi's comments have sparked a renewed debate about how the public and private sectors contribute to the overall economy.

Many commentators, particularly those outside China, award the private sector the greater credit for China's economic transformation since the reform and opening-up policy was launched 40 years ago this year.

Yet, many SOEs, particularly the 102 national ones supervised by the State-owned Assets Supervision and Administration Commission (SASAC), are among some of the world's most powerful companies, including CNPC and telecom operator China Mobile.

The combined revenues of the SASAC companies — 23.4 trillion yuan ($3.38 trillion) as of 2017 — are bigger than the entire economies of either the United Kingdom ($2.94 trillion) or France ($2.93 trillion).

In any debate about China's economy, it is also important not to overlook the role of State direction with central planning still remaining key — with the government publishing comprehensive and detailed five-year plans, which are a blueprint for action, and also launching initiatives such as Made in China 2025, steering the country to make breakthroughs in key new technologies.

Edward Tse, founder and chief executive officer of Gao Feng Advisory, a management consultancy, who has advised Chinese SOEs and leading private enterprises, believes Xi was right to emphasize that China now has a "dual track" economy.

"Both parts of the economy contribute in their own ways. The SEOs have had to deal with a lot of issues, such as overcapacity, and also problems concerning corruption, but they have also played a major role driving forward the economy," he said.

Tse, author of *China's Disruptors: How Alibaba, Xiaomi, Tencent and Other Companies Are Changing the Rules of Business*, said that one only has to look at China's high-speed rail network to see how effective SOEs can be.

In a little more than a decade, the network — spearheaded by China Railway Corp, an SOE — is the largest in the world, with 27,000 kilometers of track enabling passengers to travel the length and breadth of the country at speeds of up to 300 km/h.

"No private company would have been able to do this in such a short period of time. In the private sector, everything has to be measured in commercial returns, and because of the cost, high-speed railway would not have been able to deliver them. Yet, you cannot measure the contribution of this network in terms of profit and loss, because it has delivered such major benefits to the wider economy and society," said Tse.

China's State sector, however, is now the smaller part of the overall economy. The private sector contributed more than 60 percent of China's GDP in 2017, according to the All-China Federation of Industry and Commerce.

It also brought in more than half of China's fiscal revenue, generated 80 percent of jobs and contributed 70 percent of all technological innovation and new products in the country, according to the federation.

Zhu Ning, professor of finance at Tsinghua University, said China's private sector has played a significant role since reform and opening-up.

"It has obviously delivered the bigger share of economic growth since 1978, because the private sector didn't really exist before then. Its contribution has been quite enormous," he said.

"We now find us having this renewed debate of the relative importance of the State and private sectors because it is perceived that the environment for the private sector has become more difficult over the past three years."

Zhu said this is partly a result of regulators clamping down on wealth-management products — a major source of funding for some enterprises — in order to maintain the financial stability of the overall economy.

He said another problem is that a number of listed private companies have had funding difficulties because of falling stock market values. The Shanghai Composite Index, China's main stock market index, has fallen by nearly 25 percent, from 3,559.47 on Jan 24 to 2,721.00 on Oct 10.

"A typical situation might be a private company that was 60 percent owned by its private owner. This owner may have funded the company by using shares as collateral. With the stock market in China falling, the owner no longer has sufficient collateral. As a result, the only way out may be to sell to a State-owned company. The deals are often brokered by the banks," Zhu said.

Nicholas Lardy, senior fellow at the Washington-based Peterson Institute for International Economics, agreed that private companies in China are facing an increasing squeeze.

"Private firms are being crowded out, their share of bank lending and investment has been falling, and from the beginning of 2017 to now, the growth of value added of private industrial firms has lagged behind State firms for the first time in 40 years."

Lardy, author of *Markets Over Mao: The Rise of Private Business in China*, believes this is worrisome for China's economy, since SOEs are not as productive as the private sector.

"State enterprises are an increasing drag on China's growth, since their productivity lags that of private firms by an increasing margin."

George Magnus, a leading commentator on China's economy and an associate at the Oxford University China Centre, said Chinese financial authorities have been trying to address the funding problem that private Chinese companies now face.

"There is no doubt they are less favored when it comes to loan financing, credit terms and other forms of preferential treatment that SOEs enjoy," he said.

"There have been attempts this year and also before to coax banks into lending more to private companies and ease credit terms for export firms and small and medium-sized enterprises."

Magnus, author of the recently published *Red Flags*, which is about China's economy, said not all of the private sector is experiencing this funding shortage.

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