Volume 2, Issue 8, August - 2024 **ISSN(E):** 2938-3773

THE ROLE OF STATE-OWNED ENTERPRISES IN CHINA'S ECONOMIC GROWTH

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Abstract
This paper considers the impact of state-owned enterprises on economic growth in China. We consider several possible channels through which state-owned enterprises might play a pro-growth role: first, stabilizing growth in economic downturns by carrying out massive investments; second, promoting technical progress by investing in riskier areas of technology; third, by following a high-road approach to treating workers by paying a living wage which is favorable for China to move toward a more sustainable growth model in the future.

Keywords: state-owned enterprises, economic growth, stabilizer, Chinese economy.

Introduction

State-owned enterprises (SOEs) have played an important role in the Chinese economy. By SOEs, we refer both to state-owned enterprises and state-holding corporations, not including state-owned or state-holding financial institutions. In 2023, the total profits of SOEs reached 2.3 trillion yuan, which accounted for 13.2 percent of the total operating surplus in the whole economy. SOEs' role is even more important in taxes. In 2023, taxes from SOEs accounted for 30.9 percent of China's total tax income (SASAC 2016; NBS 2017).

MATERIALS AND METHODS

In this paper, we investigate the impact of SOEs on China's economic growth. While a sole focus on GDP growth is not desirable for a developing country, a high but sustainable output growth rate is an important goal. This paper finds evidence that a large share of SOEs has a positive impact on long-run GDP growth and also on macroeconomic stability.

The growth effect of SOEs has always been controversial in the literature. Conventional wisdom suggests that SOEs reduce economic growth because they are inefficient on the micro level (e.g., Chen and Feng 2000; Lin and Liu 2000; Brandt and Zhu 2010), or they absorb scarce resources that could be used more efficiently by private enterprises (e.g., Jefferson 1998). We argue that there are major deficiencies in both the empirical and theoretical aspects of the conventional wisdom.

RESULTS AND DISCUSSION

SOEs' investment has been more stable than private investment in China. This has played a crucial role in maintaining aggregate demand, preventing recessions, and reducing uncertainty for all investors. Since 2004, China has released data on monthly investments completed by all enterprises and SOEs, which can be used to show the reaction of SOEs when total investment slows down. As Figure 1 shows, SOE investment grew particularly fast over 2008–09 and 2015–16 when the growth of non-SOE investment slowed down.

The role of economic stabilizer results from the central government's control over SOEs' investment decisions. The State-owned Assets Supervision and Administration Commission (SASAC) is the dominant shareholder in the 106 largest SOEs, also known as central enterprises, among which forty-seven enterprises have made the 2015 Fortune Global 500 list (SASAC 2015). The Central Committee of the Chinese Communist Party appoints the president of the board and party secretary of the fifty-one most important central enterprises. With these institutions, the central government can command SOEs to carry out massive investments when necessary. While SOEs have some say in their own investment decisions, those decisions are institutionalized in the context of a stable relationship between the government and SOEs. On the one hand, the central government needs SOEs to meet macro targets; on the other, SOEs, espe- cially the largest ones, need policy and financial support from central government as well as stable macro conditions. This government-enterprise interdependence motivates SOEs to fulfill the central government's commands. Moreover, SOEs' investments benefit from the stable rela- tionship between SOEs and financial institutions. In economic downturns, banks tend to maintain or even increase funds for SOEs.

Theoretically, the stabilizing role has both short-term and long-term effects on economic growth. In the short run, SOEs' investments can reduce the severity of an economic downturn. Since an economic downturn may have a permanent effect on long-term growth, SOEs can also contribute to long-term growth by offsetting the adverse effect of economic downturns in the short run. Thus, the stabilizing role of SOEs can effectively release a "hysteresis" effect—which was found in the US economy after the 2008–9 recession (Summers 2014).[6] The long-term effect of SOEs also depends on the efficiency and profitability of SOE investments. SOE investments may induce overcapacity in the long run, imposing an extra burden on long-term growth, espe- cially when the central government has loose control over the areas of SOE investments and SOEs carry out those investments in an anarchic way. Given the conflicting possible effects of SOEs on long-term economic growth, this calls for empirical testing.

CONCLUSION

In this paper, we attempt to address the classic question in China's context: what is the impact of state ownership on economic growth? The earlier literature fails to consider that private enter- prises treat their workers badly, violate China's labor laws, and provide workers with a wage lower than a living wage. Such practices undermine the contribution of private enterprises to economic growth in the long run. Most of the current studies ignore the role of SOEs in stabiliz- ing economic growth and promoting technical progress. We argue that SOEs are playing a pro- growth role in several ways. SOEs stabilize growth in economic downturns by carrying out massive investments. SOEs promote major technical innovations by investing in riskier areas of technical progress. Also, SOEs adopt a high-road approach to treating workers, which will be favorable to the transition toward a more sustainable economic model. Our empirical analysis indicates that SOEs in China have promoted long-run growth and offset the adverse effect of economic downturns, while they have no statistically significant contemporaneous effect on growth.

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