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Facts

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China's economy: state of the state versus private sector

Successive waves of 'reform and opening up' in the People's Republic of China (PRC) facilitated the growth of a private sector in an economy that had long been dominated by state-owned enterprises (SOEs). However, increasing state control over the economy has added to external pressures facing PRC firms. This factsheet provides an update on developments in the PRC's private and state sectors. It is caveated by the fact that commercial entities in the PRC ultimately operate at the discretion of the Communist Party of China (CCP), which necessitates adherence to the CCP's political directives. This has introduced uncertainty around the delineation between 'private' and 'state', with observers pointing to growing permeability between these categorisations.[1]

1. *The Economist* observed in 2018 that the PRC private sector accounts for close to two-thirds of gross domestic product (GDP) growth and 80 percent of new jobs.[2]
2. PRC economy specialist Professor Nicholas Lardy found that the public sector accounted for 11 percent of urban employment in 2016.[3] Data from the PRC National Bureau of Statistics shows the public sector, which includes SOEs, accounted for 13 percent of urban employment in 2018.[4]
3. In 2018, 13.6 percent of the working age population owned and managed a private business. This compares with a regional average of 22 percent and 27.6 percent for countries with a comparable per capita income.[5]
4. In 2018, the value of PRC investment in Australia by privately-owned companies was seven times that of SOEs. In terms of the number of deals completed, privately-owned firms outnumbered SOEs by more than 11:1.[6]
5. In 2018, the value of the top 100 PRC brands increased by 30 percent compared to a year earlier. Five of the top ten most valuable brands were privately-owned – Alibaba, Tencent, Ping An, Baidu and JD.com – compared to three in 2014.[7]
6. While PRC President Xi Jinping stated in 2013 that 'we must ensure that the market has a decisive role in the allocation of resources', he also called for 'persisting in the dominant position of public ownership' and 'giving full play to the leading role of the state sector'. Since at least 2017, he has called for SOEs to become 'stronger, better and bigger',[8,9] in line with 2015 SOE reform guidelines aiming for 'stronger and better' SOEs.[10]

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2 *The Economist*, 'China's private sector faces an advance by the state', December 8 2018 <https://economist.com/business/2018/12/08/chinas-private-sector-faces-an-advance-by-the-state>.
3 Nicholas Lardy, *The state strikes back – the end of economic reform in China?*, Peterson Institute for International Economics, January 2019.
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5 Global Entrepreneurship Monitor, 'Entrepreneurial behaviour and attitudes – China', Global Entrepreneurship Research Association, London Business School <https://gemconsortium.org/economy-profiles/china>.

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7 Lucy Edgar, Sophia Huang, Jordan Liu, Cecilie Østergren, David Roth, Ken Schept, Eric Tan, Raam Tarat, Igor Tolkachev, Vivian Wang, Monica Zhang, Sharron Zhou, *BrandZ most valuable Chinese brands*, Kantar, May 6 2019 <http://www.millwardbrown.com/brandz/rankings-and-reports/top-chinese-brands/2019>.
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7. The CCP Constitution requires all organisations with three or more Party members to establish a Party committee, with those in SOEs holding greater responsibilities for implementing political objectives than in private enterprises.[11]
8. In 2017, there were reports that such Party committees had requested greater influence over corporate decision-making in the private sector, including foreign firms, as part of a push for increased CCP control.[12]
9. Professor Lardy observed that the flow of loans to the private sector fell from 57 percent in 2013 to just 11 percent in 2016, while the flow of loans to SOEs grew from 35 percent to 83 percent in the same period.[13]
10. In response to private sector concerns around government support and amid economic pressure stemming from a trade dispute with the US, President Xi began issuing public statements of support for the private sector in late 2018.[14,15] Premier Li Keqiang and senior policymakers followed up with announcements of measures targeted at increasing lending to the private sector.[16]

11 Jake Laband, 'Fact Sheet: Communist Party groups in foreign companies in China', *China Business Review*, US-China Business Council, May 31 2018 <https://www.chinabusinessreview.com/fact-sheet-communist-party-groups-in-foreign-companies-in-china/>.

12 Michael Martina, 'Exclusive: in China, the Party's push for influence inside foreign firms stirs fears', *Reuters*, August 24 2017 <https://www.reuters.com/article/us-china-congress-companies/exclusive-in-china-the-partys-push-for-influence-inside-foreign-firms-stirs-fears-idUSKCN1B40JU>.

13 Nicholas Lardy, 'China's private firms continue to struggle', Peterson Institute for International Economics, June 4 2019 <https://www.piie.com/blogs/china-economic-watch/chinas-private-firms-continue-struggle#_ftn1>.

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