

Will Mixed Reforms of Local State-owned Enterprises Hinder the Overall Restructuring of Supply-side?

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Ownership is a core matter concerning national economic development. The notion of “mixed ownership economy” was first put forward in the Report of the 15th National Congress of CPC in 1997. It signified that China had changed its mentality of “Planned Economy Only”. Sixteen years later, the Third Plenary Session of the Eighteenth CPC Central Committee once again promoted “the positive development of mixed ownership economy with cross-shareholding and mutual integration of state-owned capital, collective capital, private capital, etc.” Mixed reforms of state-owned enterprises once again become a hot issue in economic development. Different fields from the society put forward their different points of view about this topic from their different standings and perspectives.

Despite heated discussions in many places, specific measures still haven't come into effect except the Guiding Opinions about Mixed Reforms of Local State-Owned Enterprises, which makes it impossible for the mixed reforms of local state-owned enterprises to be carried out into practice. Previously, controversies about mixed reforms of Sinopec Sales Company from the society show precisely that ownership reform is delayed and is hindering the structure adjustment of supply side. From the economic theory “monopoly,” this article will discuss about mixed reforms of state-owned enterprises, with the hope to clarify the thinking about current structural adjustment in China's economic supply-side.

1. The Economic and Thinking History of Mixed Ownerships

In order to offer a fairer review of mixed reforms of state-owned enterprises, it is necessary to briefly look back to the two stages of thinking in economic development. From 1940 to 1960, on how to develop the economy of developing countries, there had been opinions emphasizing on the importance and necessity of planned economy. Believers of planned-economy held the opinion that the markets in developing countries were not complete both structurally and functionally. Therefore, if the government did not plan the national economy, it was difficult to guarantee the efficient allocation of resources. Economic development lied not in the spontaneous activity of the private sectors, but in the arrangement of state sectors. Theoretically, national economic plan can be achieved by establishing the structure model to ascertain the

China's economic development in the new situation inevitably comes to economic reform and transformation, in which the development of mixed ownership economy has been emphasized again in the third Plenary Session of the 18th CPC Central Committee. The adjustment of China's economic supply side structure is closely related to the reform of state-owned enterprises. At this stage, we can try to eliminate the monopoly of state-owned enterprises. This article will discuss the relationship and development of the two from the perspective of economic theory - "monopoly".

number of indicators, and using quantitative policy tools to fulfill this goal. Based on this theory, at the beginning of the founding of new China, all the regions implement planned economy, emphasizing full government control over production. But it turned out that, emphasis on the planned role of the government had weakened the role of the market mechanism, and the state-owned sector monopoly gradually lost its production incentives, which hinder the progress in productivity.

By the 1960s, the outcome of implementing planned economy for the developing countries was all kinds of economic troubles. Economists had to re-evaluate theories and policies of the past and make major amendments and changes. Therefore "neo-classical revival" appeared. The theorists criticized "planned-economy only" economy pattern, and started to take into account the incentive function of the private sectors. Influenced by this "neoclassical revival" in 1984," Decisions on economic reform was adopted in the Third Plenary Session of the Twelfth CPC Central Committee and for the first time it put forward that, China's socialist economy is "planned commodity economy with the basis of public ownership instead of planned economy." When Zhu Rongji came into office as Vice Premier, he resolutely broke the convention of "iron bowl, iron wages, iron chair(civil service jobs for life)" in state-owned enterprises all over China, and opened the curtain of the reform of state-owned enterprises. From 1998 to 2000, three years' reform of state-owned enterprises were in full swing, during which time tens of millions of state-owned enterprise workers were laid off, redistributed, or bought out across the country, and a large number of state-owned enterprises went bankruptcy, was restructured or reorganized. Thus, as it can be seen, reforms that impacted the interests of certain groups of state-owned enterprises were never quiet. Radical reform of SOE achieved remarkable results. After these reforms, these previously in-debt state-owned enterprises started to make profits. Yet, because a large number of private companies were only allowed to enter the downstream industry, many state-owned enterprises that monopolized local public resources became highly profitable ones.

2. Why monopoly in mixed reforms of state-owned enterprises must be eliminated in supply-side structural reforms?

From the effect of monopoly on the performances of state-owned enterprises, studies have several findings. First, in the comparison of different forms of ownerships of the enterprises, monopolized state-owned enterprises have the lowest efficiency, the lowest growth rate of total factor productivity while enterprises of private sectors have a remarkably high efficiency. Second, in the industry with a variety of property ownership structures, structure variables of state-owned property

in monopolized industry have a significant negative effect on industrial performances. Similar results come out from the perspective of agency costs: agency costs in monopolized state-owned enterprises were the highest among all kinds of ownerships. Some literature also finds that state-owned enterprises with financial monopoly is not only inefficient, but also take up a lot of local fiscal expenditure because of loose budget constraints. They also delay the progress of local private enterprises, which will be a burden to supply-side structural reforms.

Limitations to the structural reforms of supply-side also come from monopolized state-owned financial sector, which are manifested in two interrelated features. First, the structure of financial reform is inhibited. Generally speaking, the service supply of monopolized financial sector shows a very strong "financial repression", manifested not only in the fact that long-term interest rates are far lower than that of the market, but also in the monopoly of state-owned banks and the access barriers. Second, private economy, as a drive of economic growth, is faced with all forms of discriminations in financial credit and loans from monopolized state-owned financial sectors. The studies find that although non-state sectors contributed to more than 70% of China's GDP, they only received less than 20% of official loans from the banks in the past decade. The rest more than 80% of bank loans were gone to state sectors.

Therefore, though having a low productivity, state-owned enterprises have access to surplus financial resources because of monopoly, while private sectors, though with a high productivity, fall short of enough financial resources for development out of discriminations from monopolized state-owned financial sectors. Under such an economic environment, supply-side reform takes place with monopoly and suppression from the state-owned enterprises and the financial sectors. Thus, it is impossible to avoid the misallocation of resources or achieve optimal combination and effective allocations of resources. It could also easily lead to a waste of idle resources on ineffective supply, which will definitely results in a low productivity.

Only with competitive market law can the allocations of resources become more rational, more efficient, and more productive. The reform of state-owned enterprises should emphasize on coordinated allocations of resources between state-owned and non-state-owned enterprises and establish a fair competitive market. The reform will combine the low-cost private sector as well as the management concept of "less asset, more market," with financial advantages of state-owned sectors. The dominant position of state-owned economy will only be strengthened in some core industries. These measures will coordinate and clarify the connection

between the government and the market. Through mixed ownership, the reform will make full use of the high efficiency of the market economy, and dig into the incentive potential of market economy to leave the market to play a decisive role in the effective allocations of resources.

3. The dilemma of mixed reforms of state-owned enterprises

Modern economic theory has pointed out the basic approach to the improvement of governance in the process of mixed reforms of state-owned enterprises. However, to establish a modern enterprise system is not an easy task for the local government. The goal of corporate governance lies in two important aspects. First, enough freedom should be given to experienced operators for the operation of businesses. Owners that lack market experience should not make too much intervention in business operations. Second, the operators should work in the interests of the owners of the business, and make good use of the freedom from the owners. Thus, effective supervision and restriction can be guaranteed toward the operators of businesses. With the deepening of mixed reforms of SOEs, control from the inside of the enterprises represented by runners of the monopoly sectors is strengthened, and at the same time, local governments intervene in state-owned enterprises. This fact not only leads to the failure of the management of the officials but also causes the monopoly of public resources exchanged by power of the working official. As a result, monopoly state-owned operators are not reluctant to run the market, and the owners do not understand how to run a company. What's more, there is not a clear distinction between the government and the enterprise because adequate entrepreneurs have no incentive to wade in this muddy water, and effective private capitals do not have the opportunities to make contributions to the improvement of efficiency of the core sectors.

This embarrassing situation reflects the dilemma of mixed reforms of state-owned enterprises. First, it is necessary to give business operators sufficient operational autonomy in order to improve the operational efficiency. But local government would rather choose to tolerate the resultless monopoly of "their own officials" with no experience, than take the risks of innovative operation of the experienced "outside entrepreneurs." Second, though the supervision and control from the state as the owner of the enterprise are necessary, some Government officials are too self-righteous to follow the laws of the market. Some would supersede the market with administration, which makes such monitoring and control hinder the initiative spirit of experienced entrepreneurs to participate in the operation of the running of businesses.

4. How to test the results of the mixed reforms of state-owned

enterprises?

Because of endless disputes, at this stage, mixed reforms of state-owned enterprise are in the experimental stage and generally there are three attempts to eliminate monopoly of state-owned enterprises. Firstly, the development of each region is relatively mature now, and non-public capital has grown up. Industries with strong competitiveness in the market start to take shape. All these facts allow more state-owned enterprises and other forms of enterprises to be combined into mixed ownerships and encourage non-public enterprises to participate in the reform of state-owned enterprises. Secondly, In the regional emerging industries and industries where control of the state-owned sectors of economy is further enhanced, non-state-owned capitals are now allowed shares in state-owned capital investment projects. Thirdly, there has been mixed forms of ownerships in many regions, but they have a high dependency on human resources. What's more, in enterprises where the contributions of human capital are easy to evaluate and test, the staff can hold shares, which forms the market-oriented incentive system of the core staff.

Currently opinions on the opening of "property" and "industry" are not unified. The property opening goal of reformers is "unification of four capitals all over the country" which tries to achieve capital integrations of state-owned capital, private capital, domestic capital and oversea capital. The goal of industrial opening is to get rid of state-owned monopoly. However, both of them are hindered by the gainers of the advantages. Perhaps, the breakthrough in the reform test is capitalization of the enterprises, which means steering management mode of state-owned enterprises to the management mode of capitalization of state-owned enterprises. And by the asset securitization from the financial sectors, we can promote mixed reforms of state-owned enterprises. To promote the capitalization of the management of state-owned assets, what needs to be done first is to steer government-controlled state-ownership to joint-stock system. Thus, the owners will be separated from the runners, and two freedoms can be achieved within the corporate system. First, it allows a greater mobility of the state-owned capital in the industry; second, it protects independent running of businesses and make it possible to make progress and become stronger. This reform does not rely on administrative power to change the business structure of individual enterprises. Instead, through the help of the financial markets, dynamic optimization of state-owned capital is achieved, along with the restructuring of the supply side in state-owned economy. The goal of reform and layout adjustment of state-owned capital should be to reduce monopoly, and improve the efficiency of operation as the goal, thus to make capital act out its role

with value as orientation.

5. Economic advice on the strengthening of mixed reforms of state-owned enterprises

Today, it is vigorously advocated that "reform policies should be practical." Faced with long-term problem of economic development of mixed reforms of SOEs, we call on all regions to strengthen research of economic base according to local characteristics. The first question is that the scope of mixed ownership is not clearly defined and evaluated. Researchers need to mark out a clear range to define what kind of state-owned enterprises can adopt mixed ownership, and offer an evaluation system of various regions.

Second is the problem of mechanism design of mixed ownership. Past studies understood mixed ownership mere as a restructuring of the share-holding which do not involve corresponding reform of corporate governance mechanism. This is the important reason for the failure of mixed ownership reform. Again, together with mechanism design, economists need to answer the question of how to build up a modern corporate system in correspondence with regional characteristics. Finally, they need to corroborate the relationship among the empirical nature of the enterprise, structure and market efficiency, and offer support from business ownership to supply-side restructuring.

Perhaps with the consensus of economic thinking, barriers of the implementation of mixed reforms of state-owned enterprises can be cleared out and the smooth progress of market-based supply-side reforms can be guaranteed.

Translator/Hua Zhiyun