

【特集・論文】

Will China Continue to be a “State Capitalism” ?

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1. Introduction

Many Western and Japanese scholars have recently characterized the Chinese economy as a “state capitalism” (Bremmer 2010; Harper 2010; Kato, Watanabe, and Ohashi 2013; Ohashi ed. 2013; Nakaya 2013). Within China, some economists warned that the size of the state sector was expanding relative to that of the private sector in the national economy (“*guojin mintui*”), and this argument has triggered strong debate among Chinese economists. Some argue that central state-owned enterprises are strengthening their monopoly power in key industries with the support of governmental policy and preferential financing from state-owned banks. They argue that the expansion of the state monopoly will exacerbate the distortion of the industrial structure, widen income disparity among the population, and encourage rent-seeking activities (Deng 2010; Wu 2010). Others refute that this “relative expansion of the state sector” has not actually taken place (Hu 2012) or that the alleged phenomenon should not be regarded as a “problem” in a socialist economy (Wei and Zhang 2010).

This paper will show that the state sector

indeed occupies a fairly large position in the Chinese economy, and it has been favored in governmental policies. The existence of policy bias towards the state sector will be illustrated by considering anti-dumping protection measures. After the global economic crisis in 2008, the policy bias was actually strengthened, resulting in the expansion of the state sector in China’s GDP. However, at this point, the trend has already been reversed, and it is likely that the state sector’s share in the economy will continue to decline. The gradual increase of private enterprises among the petitioners for anti-dumping protection also shows that there is an irreversible trend in the reduction of policy bias towards the state sector.

The paper is structured as follows. The first section examines changes in the state sector’s share of China’s GDP in recent years using some hitherto ignored data. The second section analyses the structure of petitioners requiring anti-dumping protection. Because anti-dumping measures have become a tool for protection, the structure of their beneficiaries will indicate the types of enterprises that require and receive trade protection. This is followed by a brief conclusion.

2. Changes in the State Sector's Share of China's GDP

The debate on whether or not there has been a “relative expansion of the state sector” is based primarily on industry (*gongye*) statistics, which are the sum of manufacturing, mining, and public utilities such as electricity and heat supply, water supply, and gas supply. As has been pointed out by many authors (Deng 2010; Hu 2012; Kato 2013), the share of the state sector—which includes state-owned enterprises and state-controlled enterprises—in China's total industrial revenue has shown a consistent decline since the 1990s. The state sector's share was 52 percent in 1998 and declined to 25 percent in 2013. The state sector's relative expansion was observed only in a limited number of subsectors including petroleum and gas extraction, tobacco manufacturing, and electricity and heat power supply (Deng 2010). The shortcoming of such discussions based only on industrial statistics, however, is that they ignore the service industry, where dominance of the state sector seems to be more pronounced than in the case of other areas of industry. But because of the paucity of statistical data in this area, it is not easy to determine the state sector's share of the service industry.

In the following study, I use the data from the State-owned Assets Supervision and Administration Commission (SASAC) and the Ministry of Finance (MOF) to examine whether there has been a relative expansion of the state sector in China's GDP, including services. Let us first observe the changes in the total number of state-owned enterprises (SOEs) in Table 1. The MOF data show that the number of SOEs decreased by 49,000 from 2002 to 2008, and beginning in 2009 it started to increase. The SASAC data show a similar trend, though the actual number differs from the MOF data by roughly 1000 to 10,000. Both the MOF data and SASAC data cover not only SOEs completely owned by the state but also those which the state controls through shareholding, and neither include SOEs in banking and insurance. The reason for the difference between the two data series is uncertain.

Both data series reveal that the number of central SOEs—SOEs under the supervision of the SASAC—is consistently increasing, while the number of local SOEs—SOEs supervised by local governments—decreased until 2009. This trend is the result of the Chinese Communist Party's policy of “taking hold of the large SOEs and letting go of the small SOEs (*zhuada fangxiao*),” which means that

Table 1. Number of State Owned Enterprises

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
MOF Data										
SOEs	158,712	145,696	136,270	125,638	116,090	111,937	109,664	110,799	113,712	135,682
Central SOEs	11,598	13,357	13,520	13,856	14,296	15,395	15,729	18,181	18,699	29,520
Other Central Ministries	5,909	5,708	5,844	6,115	6,255	6,167	6,189	6,614	7,620	11,737
Local SOEs	141,205	126,631	116,906	105,667	95,539	90,375	87,746	86,004	87,393	94,425
SASAC Data										
SOEs	n.a.	n.a.	137,753	127,067	119,254	115,087	113,731	115,115	124,455	144,715
Central SOEs	n.a.	n.a.	n.a.	16,290	16,373	16,870	17,638	19,204	23,738	33,037
Other Central Ministries	n.a.	n.a.	n.a.	5,949	6,209	6,019	5,954	6,204	7,098	11,195
Local SOEs	n.a.	n.a.	n.a.	104,828	96,672	92,198	90,139	89,707	93,619	100,483

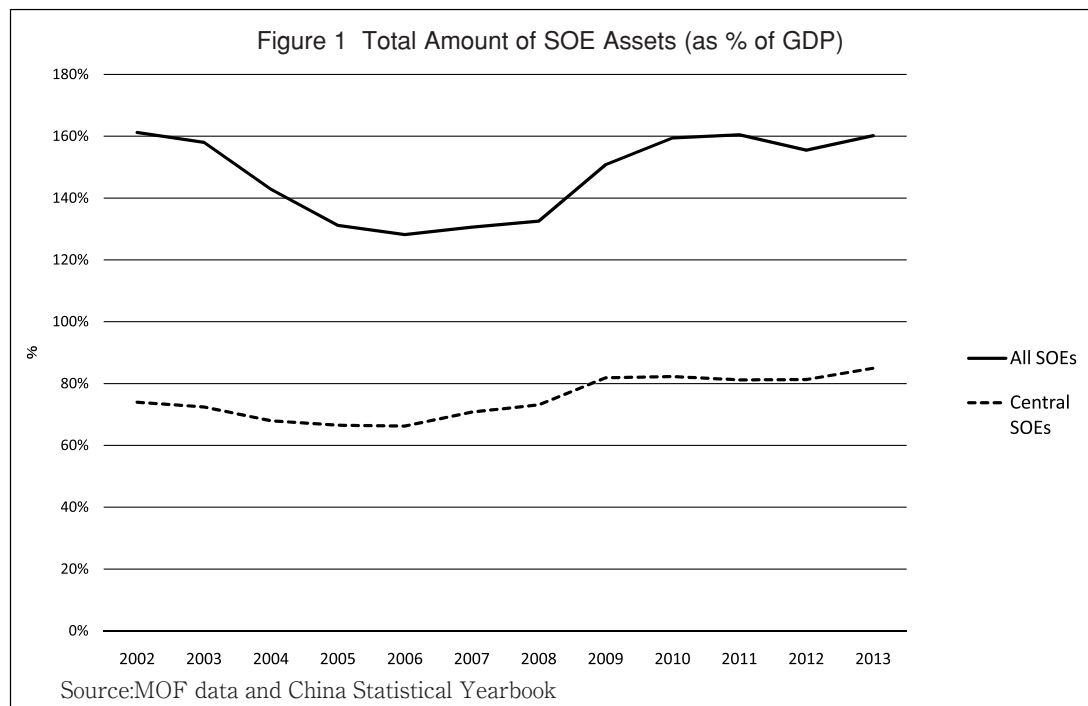
Source: MOF (2006, 2012)

the large, central SOEs will expand while the small, local SOEs will either merge with larger SOEs or be privatized. The increase of local SOEs since 2010, however, contradicts this policy. It is perhaps the result of an increase in “local financial platforms (*difang rongzi pingtai*),” which are SOEs engaged in urban infrastructure construction established by local governments to obtain loans from state-owned banks. The government’s economic stimulus package after the global economic crisis in 2008 has triggered the proliferation of these “platforms.”

The reversal from a decrease to an increase has also occurred in the total amount of SOE assets. As shown in Figure 1, the amount of SOE assets as a percentage of China’s GDP declined until 2005 and remained almost at the same level for a few years, and has sharply increased since 2009. The assets owned by central SOEs have steadily increased since 2007. Both trends in the number of SOEs and

the amount of their assets relative to GDP show that the state sector has been expanding since 2009. The question regarding whether or not the SOEs’ share in GDP has increased accordingly, however, remains unanswered. Plenty of data are available for industrial SOEs, but very few are available for all SOEs including those for services. The figures that the author managed to find out are the added value of all SOEs in 2006 and the added value of central SOEs in 2006 and 2010 (SASAC 2007:33; SASAC 2011:66). From these figures, the share of all SOEs in China’s GDP is calculated as 20.2 percent in 2006, and the central SOEs’ contributions were 10.7 percent and 10.3 percent in 2006 and 2010, respectively.

These calculations suggest a much smaller share of the state sector than the calculation conducted by Szamosszegi and Kyle (2011), who estimate that the total SOE share in China’s GDP was 39.9 percent in 2007. Their high estimate is influenced by their calculation



of the SOE share in services—estimated at 53.3 percent—that is based on the official figures of the SOE share of urban fixed investment and urban employment. However, I suspect that the private sector’s business activities in transportation, wholesale, and retailing are only partially represented by official urban investment and urban employment statistics. One reason for this is that these businesses often take place in rural areas. There are other reasons for the wide gap between the calculation based on SASAC figures and that made by Szamosszegi and Kyle (2011). First, SASAC figures do not include SOEs in banking and insurance. Secondly, the added value of non-corporate, state-owned organizations such as central and local governments, schools, universities, and scientific institutions are not included in SASAC figures.

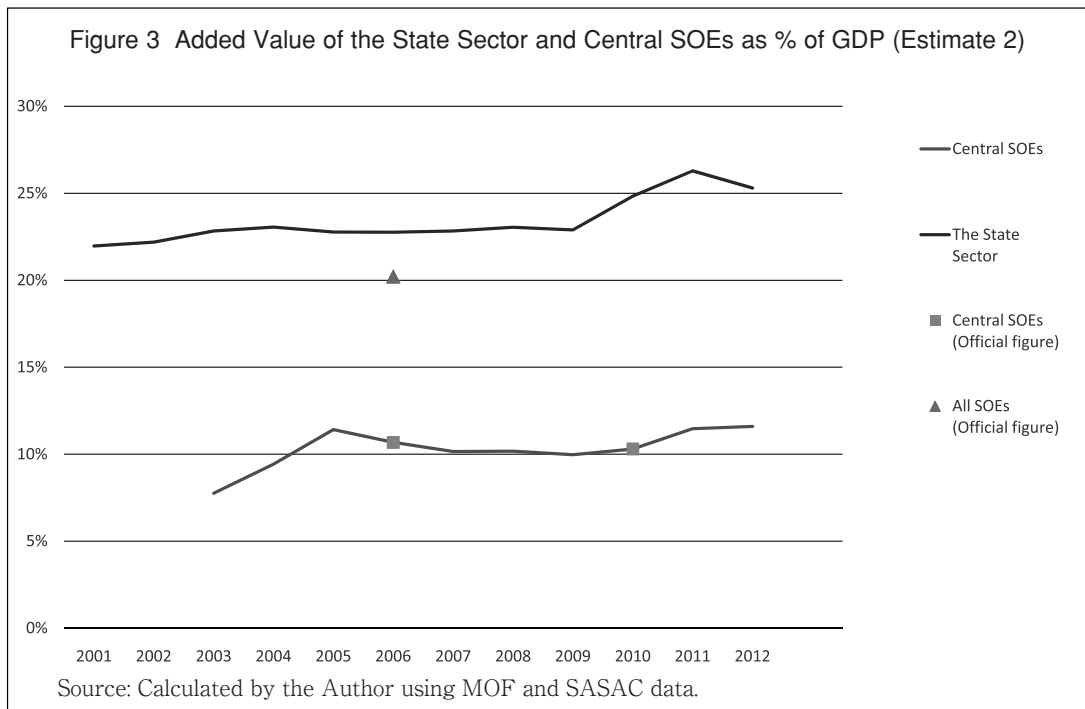
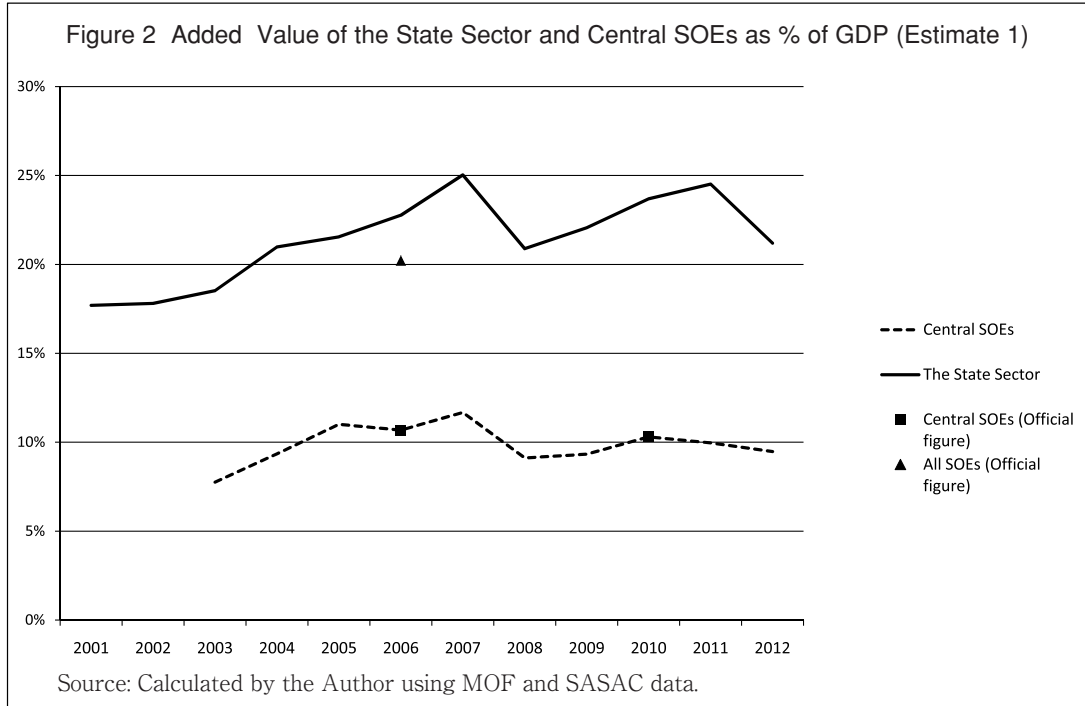
Because the focus of this study is on clarifying the distinctive features of the Chinese economy, I did not include the non-corporate, governmental and semi-governmental entities into “the state sector,”¹ because their activities are likely to be conducted by the public sector, even in more market-oriented economies. I will only add the estimated added value of SOEs in banking and insurance to the added value of “all SOEs” estimated using the SASAC figures to reach the state sector’s share of the GDP. The added

value of SOEs in banking and insurance is estimated by multiplying the added value of banking and insurance by the state sector’s share in fixed capital investment in this industry. Thus, the state sector’s share of the GDP, including banking and insurance, is estimated as 22.8 percent in 2006.

Although the SASAC reports only the added value in 2006 and 2010, the profits and tax and business revenue of all SOEs and central SOEs are reported by MOF and SASAC annually. Since it is likely that profits and tax, business revenue, and added value are highly correlated, I estimated the added value of all SOEs and central SOEs from 2001 to 2012 from these data. Figure 2 shows the estimate based on profits and tax. It is based on the assumption that the ratio of added value to profits and tax was fixed during the period. Figure 3 shows the estimate based on business revenue, which is based on the assumption that the ratio of added value to business revenue was fixed during the period. Although the two estimates do not exactly follow the same trend, they share some common features: first, the state sector’s share in 2008 was higher than that in 2001; second, the state sector’s share sharply increased in 2010 and 2011 but declined in 2012; and third, the central SOEs’ share in 2008 was higher than that in 2003.

This estimate sheds new light on the debate regarding “the relative expansion of the state sector.” First, it shows that the state sector did expand its share of the GDP after 2001. Since it is apparent that the state sector’s share has declined in the industrial sector the results suggest that this decline has been more than compensated for by the increase of the state sector’s share in services. Secondly, the state sector sharply expanded its share after 2009 when the Chinese government launched the

1 According to my estimate, central and local governments, non-corporate state-owned organizations in railroads, postal service, scientific research, technological services, education, medical and social welfare services, culture and entertainment, and others accounted for 10.6 percent of the GDP in 2012. Adding this to the share of “the state sector,” SOEs and other state-owned organizations commanded 35.9 percent of the GDP in 2012.



economic stimulus package. It is noteworthy that the expansion took place at the time when some Chinese economists began warning of

“the relative expansion of the state sector.” We can now see that these warnings were justified although the proponents failed to

provide enough evidence to support their discussion. Thirdly, the central SOEs' role in the expansion of the state sector was not as prominent as suggested by some authors (Deng 2010; Ohashi ed. 2013). Both estimates show that the state sector's share in the GDP, excluding central SOEs, grew more rapidly than that of central SOEs from 2010 to 2011. The relative expansion of SOEs in the GDP, excluding central SOEs, coincides with the expansion of their assets during the same period (see Figure 1). Perhaps the proliferation of "local financial platforms" was the primary contributor to the expansion of SOEs during this period.

It is also worth mentioning that the period of state sector expansion was short. The share dropped in 2012, and it is likely that this downward trend will continue. This is because the momentum for SOE reform and private sector development was renewed in November 2013 when the Central Committee of the Chinese Communist Party put forth the "Decision on the Deepening of Reform." The decision suggests that some bold steps will be taken in the direction of privatization of SOEs and the entry of private enterprises into the sectors hitherto monopolized by SOEs. The previous Party decision regarding economic reform made in 1999 stipulated that the state sector would assume "dominant positions in important industries and important realms." The new decision in 2013 states only that the state sector will "invest" in these industries and realms. The proposal for creating a "mixed ownership economy" is another new point in the decision. During the subsequent months, it turned out that the transformation of the corporate structure to "mixed ownership" has become a political imperative that every SOE, including central SOEs, should

realize, though its interpretation by SOEs has ranged from partial divestiture of assets to corporatization of the entire company.

3. Changes in the Petitioners for Anti-Dumping Protection

Anti-dumping (AD) measures refer to the temporary imposition of tariffs on imports from a certain exporting country or firm that has been judged to be engaging in unfair pricing. Since the establishment of the World Trade Organization (WTO) in 1995, China has always been the number one target of AD investigations in the world (Li 2007). The recent rise in the use of AD measures suggests that they are used as the "back door to protection" by countries that can no longer use conventional measures for protection (Baruah 2007).

China itself has initiated a large number of AD investigations since 1997. Beginning with an AD investigation on newsprint paper imported from the United States, Canada, and South Korea, China has reported to the WTO that it initiated 215 AD investigations by the end of June 2014. China is no longer only a target of AD measures but also one of their primary users. I suspect that some of the AD investigations were made to counter other countries' AD measures on imports from China, because two of the top three economies that have initiated AD measures against China, the European Union and the U.S., are also among the primary targets of AD investigations made by China. However, it is also obvious that China's AD behavior is not solely driven by a tit-for-tat strategy (Prusa 2001) because Japan, which was the second largest target of China's AD investigations between 1995 and June 2014, with 37 cases, has seldom initiated AD investigations against

China—only twice during the same period.

According to China’s Regulation on Anti-Dumping and to similar laws and regulations in other countries as well, AD duties can be imposed when imports that are unfairly priced cause material injury to a domestic industry. The regulations have a detailed definition of what constitutes unfair pricing and the method of measuring the injury caused by dumping. Therefore, it seems that the decision to provide AD protection can be made strictly according to economic criteria. However, some studies on AD cases in the U.S. suggest that political factors such as political connections between the industries seeking protection and the politicians that can influence the decision on AD measures may influence the decisions (Hansen 1990; Moore 1992). It is likely that China’s decisions regarding AD are also influenced by political factors.

However, in China’s political context, the influence of political factors on AD may appear in a manner different from a pluralistic democracy like the U.S. In the latter, politicians may be motivated to support protection measures that favor industries in their constituency. In China, the government may introduce protection measures simply to pursue its own industrial development strategy, or the government may consider more petitions for protection from politically-connected firms. Therefore, SOEs are likely to be favored in protection measures, because they are often assigned important roles in government industrial policy and are likely to be well-connected to party and government leaders. If this conjecture holds true, then an increase in non-SOEs among the petitioners for AD protection suggests that non-SOEs have gained more favor in China’s industrial development policy or their political connections with party and

government leaders have been strengthened.

Based on the above reasoning, I will report the changes in the structure of firms that have petitioned for AD protection. From December 1997 to June 2014, China’s Ministry of Commerce (MOFCOM) initiated AD investigations on 83 import items.² Each time MOFCOM initiates an investigation, details—including the description of the import item, the target of investigation, and the names of the petitioners—are reported on its website. By obtaining the names of enterprises from the reports and searching for information on each business in a Chinese industrial enterprise database provided by Huamei Information, I identified 192 firms and 4 industrial associations that petitioned for AD protection on 71 import items from December 2001 through June 2014. I excluded 12 items for which the investigations started prior to December 2001, because the names of their petitioners were not listed in the MOFCOM reports.

In the industrial enterprise database, the enterprises are classified by their controlling shareholders. Using this information, I have classified each enterprise into state-controlled, collective, private, foreign-invested, and other. Table 2 groups the petitions by their date of application and the ownership type of their applicants. This shows that the share of state-controlled firms that petitioned for AD protection was very high from 2001 through 2002 (79 percent), which was much higher than the state sector’s share in industrial revenue during the same period (45 percent). This suggests the existence of a policy bias favoring

2 The aforementioned number of AD cases reported to the WTO (215) is the total number of countries that are targeted in each AD investigation on 83 particular items.

Table 2. Firms that Petitioned for Anti-dumping Protection

Period		State	Collective	Private	Foreign	Others	Total
2001-2002	No. of firms	22	1	2	2	1	28
	Share	79%	4%	7%	7%	4%	100%
	Weighted share	84%	2%	6%	6%	2%	100%
2003-2004	No. of firms	26	2	2	3	5	38
	Share	68%	5%	5%	8%	13%	100%
	Weighted share	81%	8%	3%	3%	5%	100%
2005-2006	No. of firms	18	1	6	1	1	27
	Share	67%	4%	22%	4%	4%	100%
	Weighted share	72%	1%	25%	1%	1%	100%
2007-2008	No. of firms	7	1	2	2	0	12
	Share	58%	8%	17%	17%	0%	100%
	Weighted share	64%	5%	21%	10%	0%	100%
2009-2010	No. of firms	18	4	12	2	0	36
	Share	50%	11%	33%	6%	0%	100%
	Weighted share	57%	17%	22%	4%	0%	100%
2011-2012	No. of firms	14	2	6	10	1	33
	Share	42%	6%	18%	30%	3%	100%
	Weighted share	36%	3%	24%	35%	2%	100%
2013-2014	No. of firms	7	1	8	1	0	17
	Share	41%	6%	47%	6%	0%	100%
	Weighted share	45%	2%	51%	2%	0%	100%

Source: Calculated by the author on the basis of MOFCOM website and China Enterprise Database

state-controlled firms. However, the share of state-controlled firms in the petitions dropped to 41 percent from 2013 through 2014, while the share of private firms increased to 47 percent. Although the share of state-controlled firms reflected in the petitions is still higher than the state sector's share in industrial revenue (25 percent), the policy bias seems to have weakened.

In Table 2, the "weighted share" of each type of firm is also shown. Weight is given to each firm according to its importance in the petition for AD. If a firm was the sole petitioner for an AD measure, a weight of one is given to the firm. If a firm was one among x petitioners for an AD measure, a weight of $1/x$ is given. The weighted share is calculated by summing the total weight factors of each

petitioner. China's Regulation on Anti-dumping stipulates that only the petitions that are supported by producers commanding more than 25 percent of domestic production and more than 50 percent of the sum of the production volume of supporters and opponents can be accepted. Therefore, being a sole petitioner for an AD measure indicates that the firm has a large market share and significant influence on the industry. Although the weighted shares show that state-controlled firms were slightly more important in AD petitions than suggested by the simple shares, the overall trend remains the same.

The changes in the structure of petitioners for AD protection reveal the growing influence of the private sector in shaping China's trade policy and the erosion of the state sector's

monopoly on AD protection. It should also be noted that, along with the increase of the non-state sector enterprises among the petitioners, the diversity of industrial sectors has increased. From 2001 to 2008, 51 percent of the petitioners belonged to the "raw chemical materials and chemical products" industry, followed by "chemical fibers" (15 percent) and "processing of petroleum, coking, and processing of nuclear fuel" (10 percent). Many petitioners were subsidiaries of the China National Petroleum Corporation (CNPC) and China Petrochemical Corporation (Sinopec). From 2009 to 2014, the shares of the abovementioned three industrial sectors that relate to petrochemicals dropped to 39 percent, 7 percent, and 5 percent, respectively.³ Instead, "electrical machinery and apparatus" has become the second largest group among the petitioners (21 percent).

We can conclude from the above analysis that non-SOEs in diverse sectors are petitioning for AD measures, even though it was once a privilege enjoyed only by SOEs in a limited number of industrial sectors. This indicates a gradual weakening of the bias favoring SOEs in trade policy.

4. Conclusion

The contributions of this paper to the debate regarding China's state capitalism can be summarized as follows. First, it shows that the state sector's share in China's GDP expanded between 2010 and 2011, underpinning the discussions made by some Chinese economists

on the economic expansion of the state sector relative to the private sector ("*guojin mintui*"). Secondly, it shows that this trend was reversed in 2012 and the retreat of the state sector is likely to continue considering the current momentum for SOE reform and private sector development. Thirdly, the changes in the structure of petitioners for AD protection suggest a gradual weakening of the policy bias favoring the state sector. In short, China is gradually moving away from "state capitalism."

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3 The shares of industrial sectors related to petrochemicals are still very high compared to the share these sectors have in industrial revenue. The high share of chemicals involved in AD cases is a common feature in India (Baruah 2007).

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Will China Continue to be a “State Capitalism” ?

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This paper sheds new light on the debate on China’s “state capitalism.” Using some hitherto ignored data, it shows that the state sector indeed occupies a fairly large position in the Chinese economy, and its share in GDP has gradually increased after 2001. The paper suggests the existence of policy bias favoring the state sector by showing the high proportion of state owned enterprises among the petitioners of anti-dumping protection measures. After the global economic crisis in 2008, the policy bias was even strengthened, resulting in the expansion of the state sector in China’s GDP during 2010-2011. However, at this point, the trend has already been reversed, and it is likely that the state sector’s share in the economy will continue to decline. The gradual increase of private enterprises among the petitioners for anti-dumping protection also shows that there is an irreversible trend in the reduction of policy bias towards the state sector.