

# The Enlightenment of the Phenomenon of "the State Advancing with the Private Sector Retreating" to the State-owned Economy's Future Development

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## ABSTRACT

In recent years, China's domestic academia and industry have paid great attention to the phenomenon of "the state advancing with the private sector retreating", which has triggered a fierce debate. The authors analyze and demonstrate the phenomenon of the state advancing with the private sector retreating and the development facts under the phenomenon, and then draw the conclusion that for China to achieve scientific economic development in the future, "the state" and "the private sector" must coexist and advance and retreat in an orderly way.

**Keywords:** *The state advancing as the private sector retreating, State-owned economy, Enlightenment.*

## 1. INTRODUCTION

State-owned enterprises are the backbone force of China's state-owned economy and the leading force in the development of China's production capacity and scientific and technological progress. At the same time, they are also a link with many problems and contradictions in the modern market economy. For a long time, in the reform of the state-owned economy, there has always been a view that state-owned enterprises and private enterprises are opposed to each other. Especially after the economic crisis in 2008, in order to regulate the market economy and stimulate market vitality, the Chinese government issued corresponding policies, laws and regulations, and invested a lot of money to increase macro-control intensity. In this regard, the industry and academia have aroused fierce debates on "the state advancing as the private sector retreating" of China's economy, mainly around whether the statement "the state advancing as the private sector retreating" is true, and whether state-owned enterprises can still adapt to the development of the market economy. There is even a view that the development of state-owned enterprises has forced private enterprises to withdraw... In the face of the trend of deepening reform in an all-round way, how can the state-owned economy develop when there are disputes

and even confrontations between state-owned enterprises and private enterprises?

## 2. THE UNDERSTANDING OF THE STATE ADVANCING AS THE PRIVATE SECTOR RETREATING

"The state advancing as the private sector retreating" is a controversial phenomenon in the process of China's economic growth, which can be understood from three aspects as follows: First, on the macro level, it refers to the overall trend of economic structural changes, that is, the proportion of the state-owned economy in the total economic aggregate is rising; second, in terms of meso-level, it refers to the expansion of the market share of the state-owned economy in one or some industrial fields, and the reduction of the market share of private enterprises in this field, or even the exit of it; third, at the micro-level of enterprises, the rising proportion of state-owned capital and the declining proportion of non-state-owned capital is essentially a manifestation of "the state advancing as the private sector retreating" [1].

### **3. THE PHENOMENA OF THE STATE ADVANCING AS THE PRIVATE SECTOR RETREATING IN MODERN TIMES**

From the reform movement of Guan Zhong in the Spring and Autumn Period, the government began to monopolize important resources. By the late period of Emperor Wu of the Han Dynasty, all levels of society were constantly questioning the state-run policy. Sang Hongyang's three classic questions to Confucian scholars at the Salt and Iron Meeting in 81 BC are still questions that need to be discussed today.

China's modern industry and commerce in the late Qing Dynasty began with the military industry, the purpose of which was to raise funds for military enterprises to start industry and commerce and then develop into industries related to civil use. Due to problems of management, corruption and waste, in 1872, under the leadership of Li Hongzhang, the "government-supervised and merchant-managed" policy was proposed, which was then used to operate large-scale civil enterprises such as the China Merchants Steamship Navigation Company, Kaiping Mining Bureau, Chinese Telegraph Office, Shang-hai Mechanical Textile Bureau, Hanyang Iron Works, etc. [2] At the same time, the preferential policies such as tax reduction and tax exemption were implemented for these enterprises, and most of them also enjoyed the monopoly privilege given by the government. At this time, "the state advancing as the private sector retreating" was mainly reflected in the monopoly operation of state-owned enterprises. This was the first time in modern history that "the state advanced as the private sector retreated".

During the period of the Republic of China, "the state advancing as the private sector retreating" had strong authoritarian characteristics. After the "September 18th Incident", the National Government began to turn to the wartime system, focusing on the development of state-owned enterprises; after the "July 7th Incident", the National Government established the joint offices of the four major banks of the Central Bank, China, Communications and Farmers, which not only implemented a state monopoly on finance, but also implemented comprehensive intervention in the economy. However, the wartime financial monopoly, material control and inflation, as well as a large number of enemy and puppet industries after the war, led to a sudden increase of bureaucratic capital to 2.8 times the pre-war level,

while private industrial capital only recovered to 78.6% of the pre-war level. "The state advancing as the private sector retreating" became a foregone conclusion [3].

After the founding of New China, due to the needs of industrialization in the early days of the founding of New China, the Chinese government's transformation of agriculture, handicrafts and capitalist industry and commerce was the "Three Great Remould" of New China. This was also a large-scale action of "the state advancing as the private sector retreating" [4].

After the reform and opening up, China has continuously implemented economic system reforms. In China's macroeconomic regulation, state-owned capital participates in economic development in accordance with the basic principle of "advancing and retreating in an orderly way". However, in recent years, the phenomenon of "the state advancing as the private sector retreating" has frequently appeared in most industries, for example, in the iron and steel industry, the provincial reorganization represented by Hebei Iron and Steel and Shandong Iron and Steel, and the cross-regional reorganization headed by Baosteel, Wuhan Iron and Steel (Group) Corp., and Anshan Iron and Steel Group Corporation; in the civil aviation industry, the state-owned China National Aviation Holding Company acquired East Star Airlines, and China Eastern Airlines, which was subordinate to the State-owned Assets Supervision and Administration Commission, merged with Shanghai Airlines; in the coal industry, the state issued policies requiring the integration of local small coal mines, stipulating that they should be reorganized and merged by state-owned coal mines [5], further arousing the social concerns about the comprehensive "the state advancing as the private sector retreating".

### **4. DEVELOPMENT FACTS UNDER THE PHENOMENA OF THE STATE ADVANCING AS THE PRIVATE SECTOR RETREATING**

Facts have proved that for state-owned enterprises, the private economy is indeed more dynamic and creative; coupled with the various problems existing in state-owned enterprises in recent years, when it comes to "the state advancing as the private sector retreating", people often rely on their subjective perceptual knowledge to believe that "the state advancing as the private sector retreating" means that state-owned enterprises

crowd out private enterprises through their own dominant positions and create unequal competitions. However, from the perspective of micro-enterprise-related data and macro-economic-related data, the phenomenon of "the state advancing as the private sector retreating" is not obvious, or even the opposite.

To begin with, from the relevant data of micro-enterprises since 1998, whether it is the number of enterprises, operating income or profits, the proportion of public ownership has generally declined, but the proportion of non-public ownership has generally increased.

In terms of the number of enterprises, from 1998 to 2020, the number of state-owned industrial enterprises in the country dropped from 64,737 in 1998 to 22,072 in 2020, which was only about 45% of that in 1957 (49,600), and the proportion of the number of industrial enterprises above designated size in the country further dropped to 1.7%. At the same time, the number of private industrial enterprises above designated size in the country increased from 10,700 in 1998 to 286,400 in 2020, and the proportion of the number of industrial enterprises above designated size in the country rose from 6.46% to 80.34%.("Figure 1")

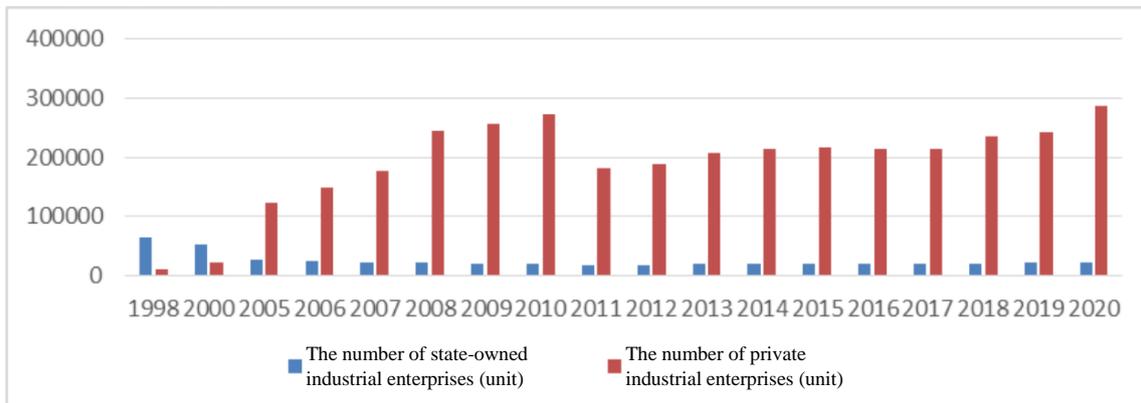


Figure 1 The number of industrial enterprises (Data source: China Statistical Yearbook, 2021).

From the perspective of enterprise operating income, the proportion of the industrial operating income of state-owned and state-owned joint industrial enterprises above designated size in the country's industrial operating income of industrial enterprises above designated size dropped from 49.6% in 1998 to 10.62% in 2020; meanwhile, the proportion of the industrial operating income of private industrial enterprises above designated size in the country to the industrial operating income of industrial enterprises above designated size in the country rose from 3.1% in 1998 to 49.2% in 2020.

In terms of profits of enterprises, in 2020, the total profits of state holding enterprises above designated size in the country accounted for 33.27% of the total profits of industrial enterprises above designated size nationwide; at the same time, the proportion of the total profits of private industrial enterprises above designated size in the country to the total profits of industrial enterprises above designated size rose from 4.6% in 1998 to 49.2% in 2020. ("Table 1")

Table 1. Key indicators of different types of industrial enterprises above designated size

	Number of business (unit)	Operating income (100 million yuan)	Total profit (100 million yuan)
State holding enterprise	22072	279606.8	15346.1
Private enterprise	286430	413564.0	23800.5

a Data source: China Statistical Yearbook, 2021

In addition, judging from the macroeconomic data, including the proportion of employment and investment, the proportion of the public sector of the economy is generally declining, which means that the proportion of the non-public sector of the economy is on the rise.

From the perspective of urban quantity of employment, the proportion of urban employment in state-owned units and urban collective-owned units in the total urban employment in the country dropped from 20.5% in 2010 to 12.6% in 2020; at the same time, the proportion of urban employment in private enterprises in the country's total urban

employment rose from 17.5% in 2010 to 63% in 2020.

Judging from the fixed asset investment, since 2012, private fixed asset investment has always

accounted for more than 55% of the total social fixed asset investment, which has become the important supporting strength for investment growth. ("Figure 2")

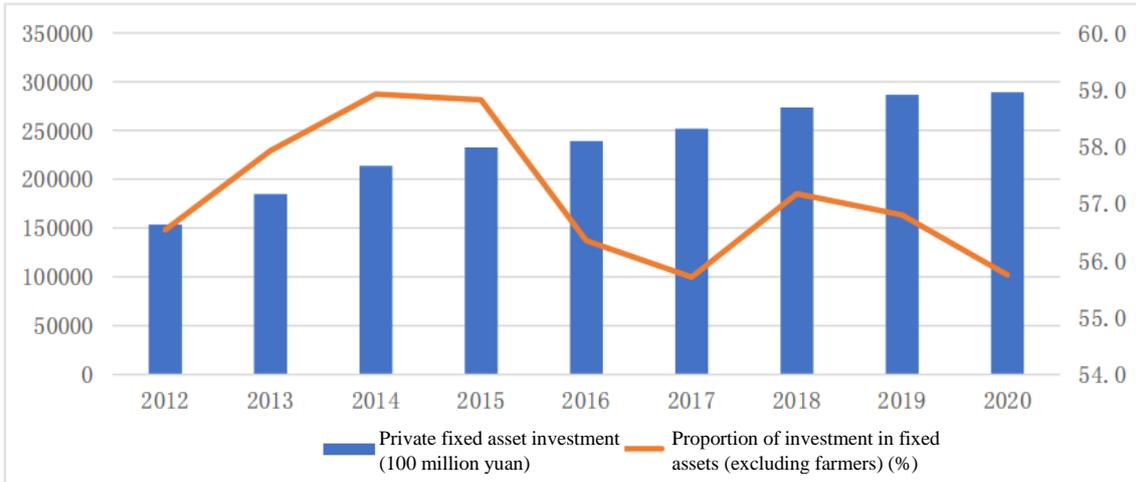


Figure 2 Private fixed asset investment (Data source: China Statistical Yearbook, 2021).

It can be seen that at this stage, the private economy contributes more than 50% of tax revenue, more than 60% of GDP, more than 70% of technological innovation, more than 80% of urban labor employment, and more than 90% of new employment and the number of enterprises to the entire national economy. The current "the state advancing as the private sector retreating" and the policies of "invigorating large enterprises while relaxing control over small ones" and state-owned enterprises withdrawing from competitive fields implemented in China in previous years are all normal economic phenomena based on the needs of China's economic and social development. Private enterprises are still an important part of the socialist market economy and play an important role in the entire national economic system.

### 5. ENLIGHTENMENT FOR THE DEVELOPMENT OF STATE-OWNED ECONOMY

It must be seen that in the development of China's national economy, state-owned enterprises play a role in basic industries and heavy manufacturing industries, while private enterprises provide products in manufacturing, consumer goods, etc. The two are highly complementary, cooperative and supportive. Therefore, it is necessary for people to change the idea and use the idea of the new modern industrial chain to further understand the state-owned economy.

One of the most important achievements of China's reform and opening up is the market economy with competition as a means. That is, it breaks the monopoly position of the original state-owned enterprises in the era of planned economy, and prompts China to have a market economy in which a variety of state-owned and non-state-owned economic systems compete together. In China, state-owned enterprises and private enterprises have their own characteristics and status and play roles in their respective fields. In the meantime, people must pay attention to the dominance of state-owned enterprises in China's national economy, and their political and social functions cannot be replaced by private enterprises.

Therefore, in the future development of the state-owned economy, first of all, people can't blindly deny the rationality of "the state advancing" and can't simply think that "the state advancing" is unnecessary and unreasonable, but should be flexible according to actual needs. The key is to adapt to the needs of the development of productive force and the needs of special period and special circumstance. Second, people must view the relationship between "the state advancing" and "the private sector advancing" dialectically, and not simply generalize about the good or the bad, but should define them clearly and clarify the relationship between them. "The private sector may not retreat" while "the state advances", and even a win-win situation of "the state advancing as the private sector advancing" can be realized. Third, in

the case of "the state advancing", the specific fields, priorities, and methods during "the state advancing" must be handled carefully. For example, in the definition of the industrial field of "the state advancing", it is necessary to focus on the key industries related to the national economy and people's livelihood and the public industries or products that must be operated by the government. For some competitive sectors that are not key to the national economy and people's livelihood, corresponding policies and guidelines can be formulated, and private enterprises can participate in production and operation under the policy guidance. Finally, whether it is "the state advancing" or "the private sector advancing", in any case, the law of value and market norms of the market economy must be followed. At the same time, it is necessary to avoid the privatization of state-owned assets and the privilege of the private economy. Efforts should be made to not only to avoid the loss of state-owned assets, but also to avoid profiting from business operations because of the close relationship between government and enterprises, which may hinder fair competition [6].

## 6. CONCLUSION

Looking at the development of China's economy, "the state advancing as the private sector retreating" and "the state retreating as the private sector advancing" are both the results of the development of the market economy. Only when the people are rich can the country be strong, and only when the country is rich can the people be secure. In the future development pattern of China's national economy, efforts should be made to optimize the innovation of the government management system, establish a legal environment suitable for the development of state-owned enterprises and private enterprises, promote innovation in the financial system, and create a good market environment for state-owned enterprises and private enterprises, to promote state-owned enterprises and private enterprises to embark on the road of overall planning, comprehensive coordination and common development, so as to ensure the effective development of China's economic system and provide effective growth momentum for the high-quality development of the state-owned economy.

## AUTHORS' CONTRIBUTIONS

Zhiquan Yang is responsible for the topic selection, structure of the essay, research focus and revision. Bingquan Ren wrote the manuscript.

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