



Stake-holder Firms and the Reform of Local Public Finance in China

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State capitalism in China

- Since 1978 China has developed strongly based on
 - increased reliance on market, and
 - movement of resources into high productivity, non-state sector (Zhu (2010)).
- But the hand of the state remains strong in shaping economy:
 - the continuing presence of state-owned enterprise (SOE), both centrally and at local levels
 - close relations between private enterprise and the state both centrally and at local levels
- Critics argue that SOEs' prominence relies on privileged access to finance which crowds-out private sector investment and thus undermines future growth (Lardy, 2019)
- Since 2015 Beijing's deleveraging policy has reined back SOE's debt issues,
 - By hardening budget constraints and rationing SOEs' access to government guarantees
 - but is challenged because much of the borrowing is at local levels and supports **infrastructure investment** needed for **urbanisation** and also to buffer **macro headwinds**. (Anderson, 2020)

Balancing central and local powers

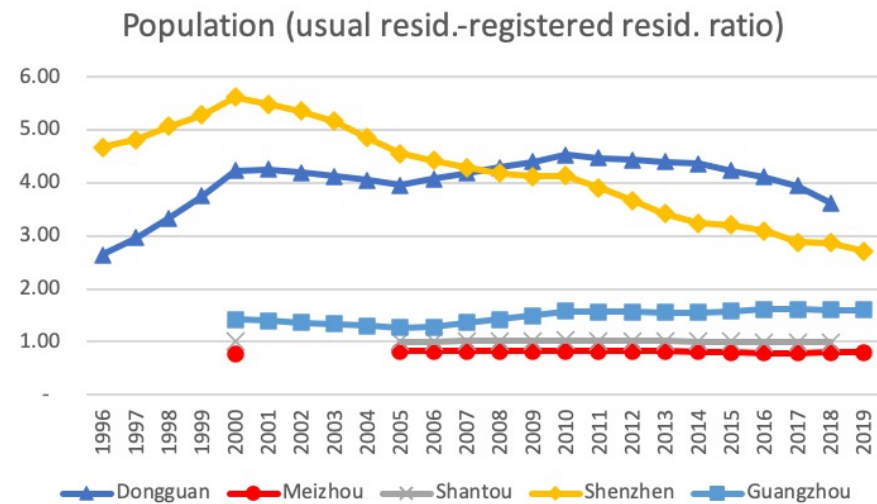
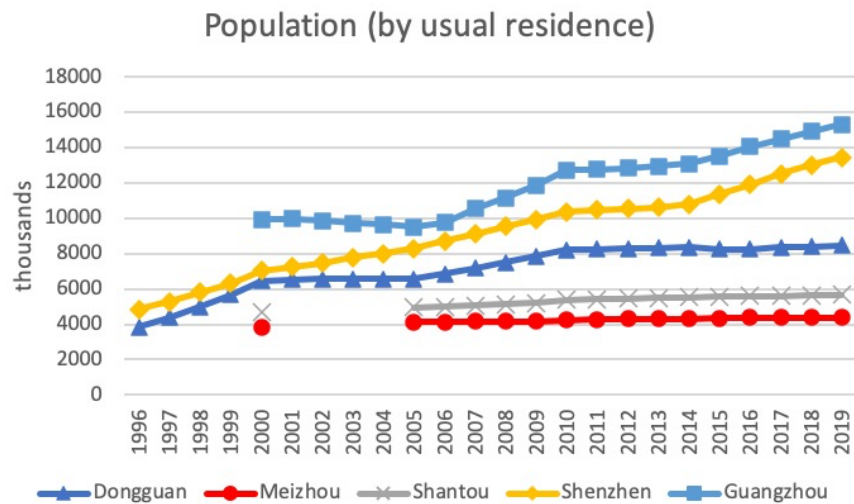
- China's industrial policies are shaped by China's "regionally decentralized authoritarianism" (Xu, 2011)
 - Central authorities hold formal powers to intervene widely if required,
 - But effective control is generally delegated to local levels (province, city, county)
- The emergence of the market since 1978 has come in stages with different regions allowed to experiment with different ways of organizing commerce and social services.
 - Seen in Deng Xiaoping's instructions to local leaders of the first Special Economic Zone in Shenzhen in 1980. ***"The party center has no money. So we will give you a policy that allows you to charge ahead and cut through your own difficult road."***
- This principle of ***local self-reliance*** has shaped the way resources have been channelled to both private and public provision.

Example: 5 municipalities in Guangdong



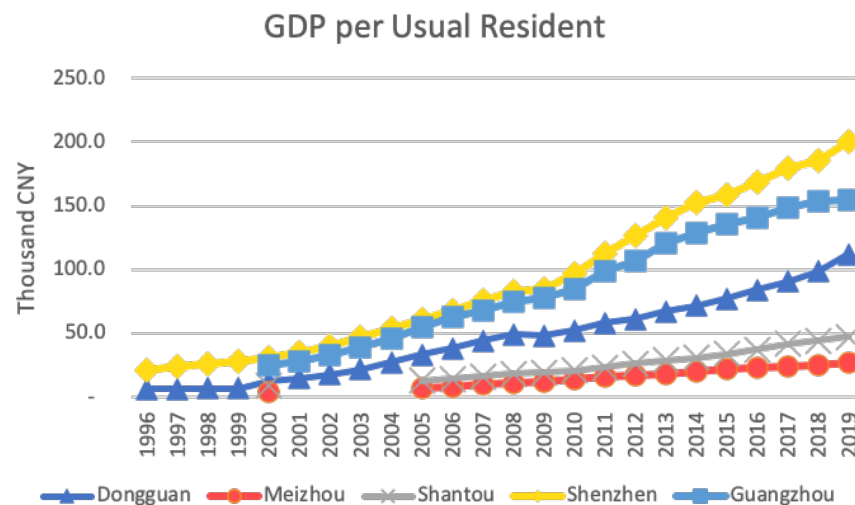
Strong population growth in Pearl River Delta, driven by new arrivals to the region and facilitated by rapid build-up of infrastructure.

Slower growth in areas with less favorable infrastructure, even in Shantou SEZ.



Urbanization in Pearl River Delta drives rapid income growth.

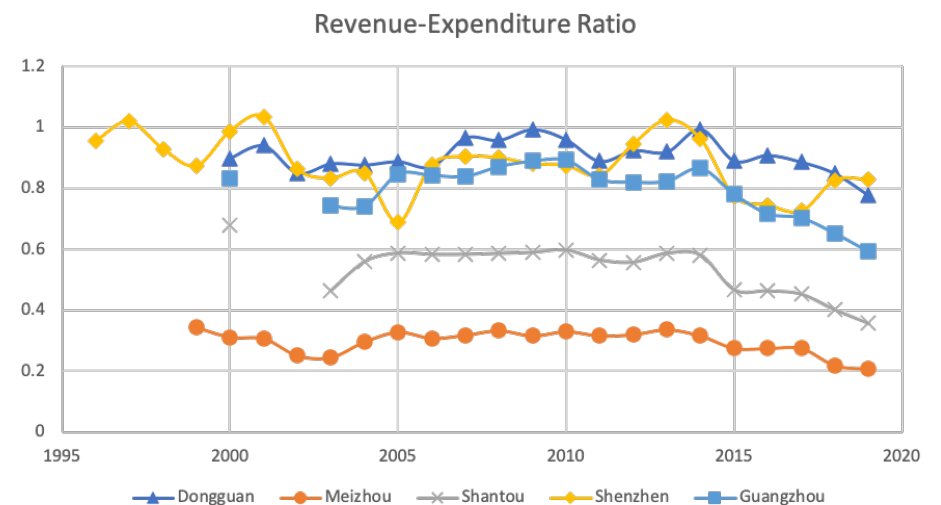
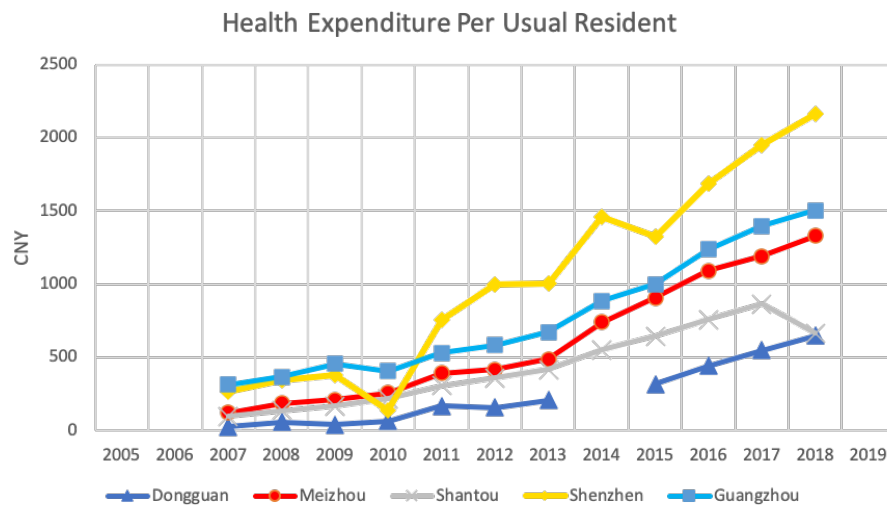
Poor initial east-west infrastructure constrains agglomeration economies in Meizhou and Shantou.



- Shenzhen rapidly moves up the value-added scale to become a global tech center.
- As provincial capital Guangzhou rides development of the Pearl River Delta.
- Dongguan develops early on light industry then enters difficult transition to higher VA manufacturing and logistics.
- Shantou tries to lever coastal location into import-export boom but with limited success.
- Meizhou enjoys moderate prosperity as the commercial center servicing a large, hilly region.

Local variation in mixed, public/private provision of social services.

Local revenues systematically less than expenditures. Shortfall filled by transfers from LSOEs and higher level public bodies plus private fees and side-line commerce.



LSOE's contribution to local public good provision depends on local opportunities, strategy taken, governance, ability to adapt and innovate, and allocation of land resources. Consider two unlisted LSOE's owned by municipal governments.

Shenzhen Metro Group, Ltd.

- Founded 1998. AAA rated
- Construction, development and operation of subway and light rail (210 km as of 2016).
- Model: Integrated urban development built around underground rail including construction of housing and commercial space.
- The SOE represents Shenzhen in regional and national transportation planning.
- Social provision: affordable housing (22,000 units), subsidized travel. public space management.
- Wholly owned by Shenzhen Municipality. Public contribution=land (+air) rights. Many subsidiaries. 2019 profits 1.7 billion USD, will be used in planned 3rd Phase metro extension(cost 35 billion USD).

Shantou Investment and Finance Group, Co.

- Founded 1992. AA rated.
- Investments in industry, agriculture, traffic, municipal facilities, and real estate
- "implementation of the Municipal party committee's .. land reserve development"
- engineering advisory
- "...flower cultivation, plant cultivation"

Are local governments' struggles for resources forcing the reform of local SOE's?

- The diversity of endowments, strategies and operational solutions sketched here for 5 cities in Guangdong can be seen in still more variations across the 31 provinces of China. No single answer.
- Deng Xiaoping's "self-reliance principle" still holds.
 - The successful localities reap the benefits in jobs, incomes and public provision. They also retain a high degree of local control over resources.
 - The unsuccessful localities struggle on all fronts and face diminished local control.
- Central government policies are shaping these dynamics at the margin,
 - "Deleveraging policies" are constraining government guarantees based on uncommitted future land rights sales.
 - Fresh money for infrastructure projects is being channeled through PPP with heightened central controls (NDRC, policy banks, MOF)
 - But formal enterprise reforms (separation of commercial versus public provision, greater transparency through stock market listing,...) not a current high priority



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Thank you