

## State-Owned Enterprises Play a Smaller, But Still Strategic, Role in China’s External Sector

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*China’s external sector has been the engine behind the country’s robust economic growth over the past four decades. By 2016, China’s total merchandise trade accounted for 16.1% of the world total, compared to 0.6% in 1978 when its economic reforms were initiated. China’s rapid trade growth was attributable to a series of interrelated factors. This briefing focuses on one of those factors—China’s declining dependence on state-owned enterprises (SOEs) in much, but not all, of its trade activity. Using the latest data, and starting from 1995 when official trade statistics became more reliable, this briefing (a) describes SOEs’ declining influence in China’s trade and (b) highlights prominent sectoral exceptions where Chinese SOEs still affect global market conditions.*

**DIMINISHING ROLE OF SOEs IN OVERALL TRADE.** While two-way merchandise trade from Chinese SOEs increased from \$164.7 billion in 1995 to \$649.7 billion in 2015, SOEs’ share of China’s total merchandise trade declined precipitously from 58.6% to 16.4% in the same period (Figure 1)<sup>1</sup>. The diminishing prominence of SOEs in China’s merchandise trade was most apparent on the export side, where SOEs’ contributions declined from 66.7% to 10.7% in the considered period —despite their growth in value terms (Figure 2). China’s merchandise imports from SOEs also grew in value terms in this period, but their share of total imports decreased from 49.5% to 24.3%. SOEs’ growth in merchandise trade value and diminishing share of total Chinese trade is explained by the outpacing growth exhibited by non-state sector firms (such as multinational and private firms). Such enterprises have led China’s external sector growth since the onset of reforms in 1978.

**STRATEGIC ROLE OF SOEs IN SELECT EXPORT SECTORS.** While SOEs have shouldered a decreasing share of China’s overall trade, they are still highly relevant, especially in areas their government has considered strategically important. With respect to exports, for example, Chinese SOE presence was most prominent in the broad (HS-2) categories identified in Figure 3 below.

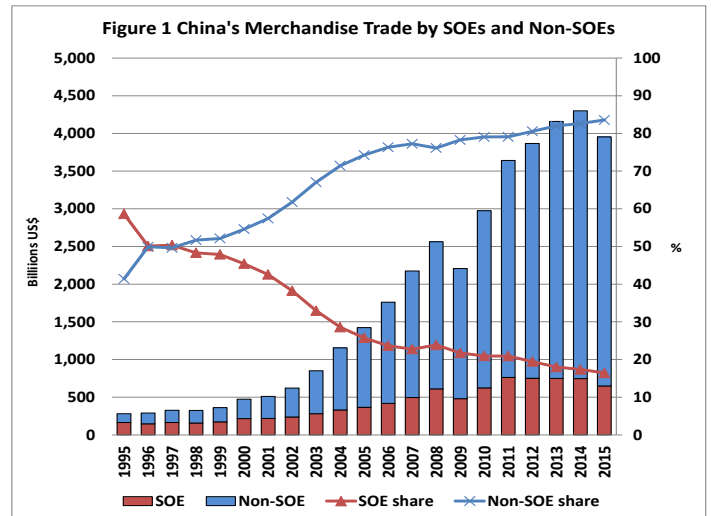
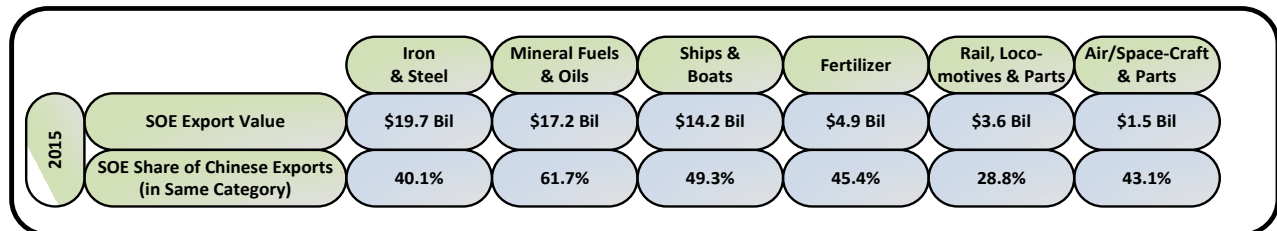


Figure 3. Broad Chinese Export Sectors with Highest SOE Contributions (2015)



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The high concentration of SOEs in China's energy, transportation, and infrastructure-related (e.g., iron, steel) exports is consistent with its government's encouragement of "strategic sectors".<sup>2</sup> The below table provides insight into this at a more disaggregated, product-specific (HS-4) level. The highlighted data places Chinese exports in the context of world exports. There, it can be seen that more than half (55%) of the world's total 2015 exports of externally-powered locomotives, for example, came from Chinese SOEs.

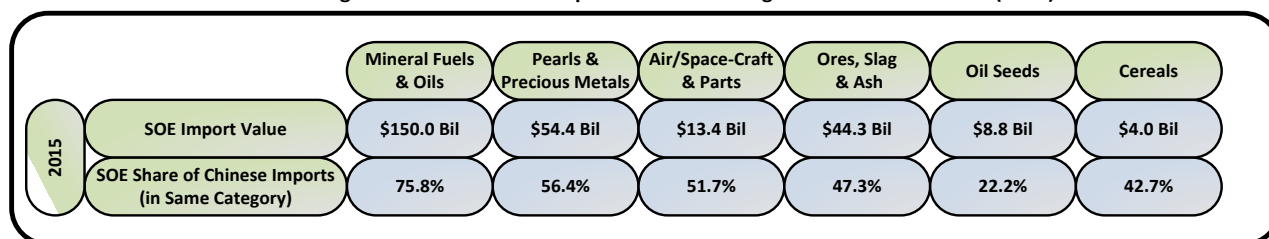
**Table 1 Merchandise Export Sub-Sectors (HS4) with Significant Chinese SOE Contributions (In Excess of \$3 Mil), 2015**

| Description                                  | China's SOE Exports | China Exports | World Exports | Chinese SOE Exports as % of China Exports | Chinese SOE Exports as % of World Exports |
|--|---------------------|---------------|---------------|---|---|
|  | (\$ in millions)    |               |               | %   |   |
| Rail locomotives, externally powered         | 634.8               | 737.1         | 1,153.4       | 86.1                                      | 55.0                                      |
| Railway or tramway passenger coaches         | 386.0               | 439.1         | 1,072.8       | 87.9                                      | 36.0                                      |
| Hot-rolled alloy steel bars and rods         | 2,070.0             | 4,491.5       | 6,837.1       | 46.1                                      | 30.3                                      |
| Tubes, pipes & hollow profiles of cast iron  | 323.1               | 570.3         | 1,450.8       | 56.7                                      | 22.3                                      |
| Flat-rolled products of other alloy steel    | 5,572.6             | 8,792.0       | 28,825.9      | 63.4                                      | 19.3                                      |
| Other bars and rods of other alloy steel     | 3,702.8             | 12,939.9      | 21,011.3      | 28.6                                      | 17.6                                      |
| Vessels for transporting persons/goods       | 11,336.1            | 20,373.6      | 69,166.6      | 55.6                                      | 16.4                                      |
| Mineral or chemical fertilizers              | 2,598.7             | 5,261.6       | 20,486.6      | 49.4                                      | 12.7                                      |
| Flat-rolled iron or non-alloy steel products | 1,551.1             | 2,179.8       | 13,929.7      | 71.2                                      | 11.1                                      |

Source: China Customs Trade Statistics; UN Comtrade (accessed May 15, 2017).

**STRATEGIC ROLE OF SOEs IN SELECT IMPORT SECTORS.** By 2015, Chinese SOEs also played a prominent role in various import sectors (HS-2), most notably in broad commodities and aircraft sectors as shown below.

**Figure 4. Broad Chinese Import Sectors with Highest SOE Contributions (2015)**



Again, we identify the most prominent SOE import categories at the more product-specific (HS-4) level in Table 2, and consider their magnitude relative to world imports. The sector with the highest share of Chinese SOE imports in 2015 was grain sorghum, which is used for make livestock feed and alcohol in China. Crude petroleum represents the sector with the highest SOE imports in value terms. In these and the other identified sectors, changing Chinese SOE demand conditions could have major global market implications.

**Table 2 Merchandise Import Sub-Sectors (HS-4) with Significant Chinese SOE Contributions (in Excess of \$3 mil), 2015**

| Description                      | China's SOE Imports | China Imports | Global Imports | Chinese SOE Imports as % of China Imports | Chinese SOE Imports as % of Global Imports |
|----------------------------------|---------------------|---------------|----------------|---|--|
|                                  | (\$ in millions)    |               |                | %   |  |
| Grain sorghum                    | 1,560.6             | 2,971.0       | 3,586.4        | 52.5                                      | 43.5                                       |
| Lignite, whether/not agglomerate | 1,018.8             | 1,977.7       | 2,409.1        | 51.5                                      | 42.3                                       |
| Chromium ores and concentrates   | 864.3               | 1,789.3       | 2,253.1        | 48.3                                      | 38.4                                       |
| Iron ores and concentrates       | 31,459.5            | 57,393.6      | 89,075.4       | 54.8                                      | 35.4                                       |
| Nickel ores and concentrates     | 1,340.0             | 2,622.1       | 4,017.4        | 51.1                                      | 33.4                                       |
| Sulphur of all kinds             | 1,076.7             | 1,778.1       | 4,582.0        | 60.6                                      | 23.5                                       |
| Gold                             | 52,288.6            | 78,979.6      | 222,917.2      | 66.2                                      | 23.5                                       |
| Crude petroleum oils             | 115,009.8           | 134,341.1     | 794,313.2      | 85.6                                      | 14.5                                       |
| Soybeans                         | 7,479.7             | 34,790.8      | 53,654.6       | 21.5                                      | 13.9                                       |

Source: China Customs Trade Statistics; UN Comtrade (accessed May 15, 2017).

<sup>1</sup> State and non-state ownership classifications in the described trade flows are official approximations based on majority ownership of the reporting firms.

<sup>2</sup> The Economist, "Fixing China Inc. – Reform of State Companies is Back on the Agenda." Aug 2014; Jefferson, Gary "State-Owned Enterprise in China: Reform, Performance, and Prospects," (Brandeis University Working Paper Series 109), 201; and China's State Council, "Guiding Opinions of the Central Committee of the Communist Party of China and the State Council on Deepening SOE Reform," Aug 2015.

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