

Government Control of Market Access in China

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The control by the Chinese government over the right to access the market is the most important factor affecting China's economic growth. I remember one time when I was hustled by a youth just outside of the gate to Beijing University to buy a pirated CD disk. I said to him that it would be a terrible thing for him if he were caught; that he would be incarcerated for hard labor for several months and asked why he would still take such a big risk. He threw back at me, "Well, in today's world, legal businesses can't make money, those businesses that can make money are not legal." That was a more concise conclusion than what we economists can draw.

Can it really be true that our economy can only prod along by selling fake college degrees and pirated disks? My answer is negative. In China there are still many businesses that have great profit potential, but the government has monopolized these profitable businesses. The free-market-oriented general public does not have access to them.

In this regard, the American experience can be telling. After the Star Wars program was grounded, the unemployment rate in Los Angeles reached as high as 12%. At the time, there was a comprehensive surplus in U.S. manufacturing. How did the Americans walk out of that pit? A very important measure was to open up the services industry. First, they opened up the sky by introducing competition into the airline industry, followed by the introduction of competition in telecommunications, power, and all the way up to municipal administration and public interest projects. Those industries traditionally were monopolies, or those so-called naturally monopolized industries, were all opened to the free market. As a result of free competition, both revenue and employment shot up.

China's own experience has been the same. Once the airline industry was opened to the free market, the airline companies mushroomed. By now, it is said that the number of flight attendants, engineers, mechanics and pilots combined has reached seventy thousand. There are also another eighty thousand booking agents. This situation has brought structural change to the Chinese airline industry.

Today, the non-governmental public is denied access to telecommunications, electric power, banking, insurance, the debt market and stock-holding companies' off-market deals, etc. There is lot of room to improve in this regard. These industries are not open to competition, which results in not only low efficiency that in turn affects other related industries, but also is hindering the expansion of employment opportunities. China's primary and secondary industries cannot be expected to provide many more employment opportunities. That leaves us the biggest place for employment expansion, i.e., those aforementioned monopolies. We ought to open them up to the market one by one, and let the profitable businesses be legally open to the public. If we do that, we can stimulate investment from non-governmental sectors.

It is in this background that I think the proposal of “Governmental Withdrawal from the Market” as initiated by the provincial government of Guangdong is very important. This could possibly be the fundamental starting point of helping the next wave of economic growth. Now it is worthwhile to discuss how the government can withdraw from the market.

First of all, our government has been trapped in traditional state-owned enterprises (SOE’s), and we should resolutely try to get out of the trap. Although there are different ways of withdrawals, the direction should be firm, that is to say, we should never get into that SOE trap again.

We have been talking about the social security system and have made it quite complicated. In reality, the phrase “social security” is a misnomer. What is really going on is not how to enhance the level of social security, but how the Chinese government acts as the agent of the SOE’s to pay off the debt that the SOE’s owe to the aging workers. The SOE’s have long “invested” away what is owed to the workers. Our finance system can’t pay the workers either. Therefore, we now talk about inventing a “social security system.” The real purpose of this is to let those barely profitable SOE’s pay what’s owed by other traditional SOE’s to the aging workers. By doing so, however, the government may get deeper and deeper into the trap, because once the money from various social security funds reaches the central government, it will become new debts of the government.

One possible solution is to slice a portion of the state assets, auction it off and pay back the debt owed to the aging workers with the proceeds of the auctions. All new workers will have a new system so that the government will not bear any new burden. What is the best social security system? First, let people make some money from the market, then they can save and invest, thus creating an efficient market and financial system. This is most important. Once natural or man-made disasters strike, people first rely upon their savings, then they seek the help from family, relatives, friends and the community, and only after that can the local government provide supplementary help. The last source of help comes from the aid of the central government.

We should not emulate the model of Northern Europe where business enterprises spend large sums of money on social security taxes to feed a huge number of people. With the current credit system in China, you are unlikely to receive any social security money thirty years from now. The enterprises that were built thirty years ago lay you off and promise you something thirty years from now, how can you trust that? If the chance of making money dwindles quickly, and if the burden of social security grows, where will the government ultimately get its money? The government can only make the current, barely profitable businesses completely bankrupt. This is not the solution.

Secondly, the Chinese government must get out of the mess engendered by the new government-controlled market economic structure in place since the beginning of China’s reform efforts. For example, the debts of the “window companies,” which looks good only on paper, can create a credit crisis if we don’t pay enough attention to it. Yet the local governments are broke and unable to pay for the principal and interest that are due. One feasible solution is to re-organize the debts, through state-owned assets and privileges; the other solution is to rely on a rosy prediction of the future of the Guangdong Province.

Yet, in Guangdong many companies are already unable to match their assets with their huge debts. This is the inevitable consequence of the government/business symbiosis, and the result of the inability of the SOE's to adapt to the market economy. When we re-organize the assets and debts of various enterprises, we must also change the internal mechanisms of these enterprises. Otherwise, we will have another big mess in a few years. Then we will not answer the whole society. If we can't solve this government/business symbiosis, the government will forever be dragged in this trap, unable to function normally.

Thirdly, the government must withdraw from competing for market opportunities with the public. This is most imperative, but also the most difficult because the government has been into this pit too deep and the grease is too attractive. Some believe that the proposal for government's divestment from the market is not quite accurate, because the market always needs governmental regulations. This may sound rational, but the reality is, even if some supernatural force demanded the withdrawal of the government from the market, it would take five to ten years. So we should not worry about the absence of governmental influence.

Finally, the government must also withdraw from successful investment ventures. In the early stage of the market economy, few people attempt to do businesses in certain areas. So, the government ventures first into these areas and some of the ventures become successful. In circumstances like this, the government should also divest, because the government is not a business enterprise, not for profit and market share, but for political and administrative purposes. It's successful now, but several years down the road, it may become stale and aging, and ultimately a failure.

How should the government withdraw from the market? In the beginning, the government controls 100% of the share, and then when the enterprise is doing well, the government can sell some. This way, the government will gain some resources, with which to do other things. Consequently, what the government gives up will become what the public gains, thus creating a benign cycle.

In sum, our current task is to focus on the "three withdrawals," the government's withdrawal from the dilemma of the traditional SOE's, the symbiosis of the government/business, and the market mechanism that competes for profit with the general public.