SOEs Reformâ€™s Impact on China Economic Growth

Topic: CGE and SAM Applications
Author: Zhaoyuan Xu
Co-Authors: Shantong LI

This paper will investigate how the Stated Owned Enterprises (SOEs) reform influences economic growth. We will construct a Computable General Equilibrium model which reflecting Chinese economic characteristics, separating the production from SOEs or not SOEs, to estimate SOEs reformâ€™s impact on economic growth. The preliminary results find that SOEs reform can enhance economic growth through raising marginal output of capital, improving allocation efficiency of capital, increasing TFP growth rate and exerting the spillover effect on other firms. Results of numerical simulation show that economic growth rate benefits significantly from SOEs reform: If every 5% of the SOEs are reformed year by year in the next 10 years, the economic growth rate can averagely raise 0.33 percentage point every year; and the yearly average raise of the economic growth goes separately to 0.47 or 0.50 percent point if 10% and 20% of the SOEs are reformed. With the background of searching and exploring endogenous driving force for economic growth, promoting SOEs' reform steadily and actively is very important for China to enhancing the economic efficiency and promoting economy growth.

Oultline
1. Introduction
    1.1 Research on the performance of Chinese SOES via other firms.
    1.2 some other related research about the SOE reform and economic growth, such as Hsieh & Klenow(2009),Brandt & Zhu(2010)
2.Data and Mechanism analysis of SOEs reform on economic growth
    2.1 SOEs reform could enhance the capital productivity
    2.2 the relation between SOEs share and capital allocation efficiency in the economy
    2.3 estimates and comparison of the growth rate of TFP (total factor productivity) for SOEs and Non SOEs based on the Chinese firm-level survey date,2000-2008
    2.4 the spillover effect of firm level TFP from the growth of SOEs and other firms.
3.Construct of the Chinese CGE model to simulate the effect of SOEs reform on Economic growth
    This model will based the data on Chinese 200 IO table (we will soon get the 2012 IO table and may be revise it)
    3.1 Model feature 1: separate the SOEs sector and Non SOE sector, and differentiate the capital and labor productivity of different firms
    3.2 Model feature 2: separate the sectoral TFP difference between SOEs and Non SOEs, to reflect the different spillover effect
    3. 3 Model feature 3:Special function of investment allocation in every sector, so the model will reflect the mechanism of dynamic capital allocation effect
4. Simulation Results of SOEs reform on Chinese economic growth in the next ten years (2015-2024)
    4.1 set the scenarios of SOEs reform
        Base scenario
        scenario 1:slow reform, 5% SOEs will be privatized in the next 10 year.
        scenario 2:medium rate of reform, 10% SOEs will be privatized in the next 10 year.
        scenario 3:medium rate of reform, 20% SOEs will be privatized in the next 5 year.
    4.2 Simulation results
        4.2.1 Economic growth rate of different scenarios
        4.2.2 difference of per capita GDP
    4.3 decomposition of the SOEs reform effect to different mechanism

5. Conclusion and policy suggestion

Reference:

Banerjee，Abhijit V. and Esther Duflo, â€œGrowth Theory Through the Lens of Development Economicsâ€•，2005, Handbook of Economic Growth, Volume 1A. Edited by Philippe Aghion and Steven N. Durlauf, Elsevier B.V.

Brandt, Loren. and Xiaodong Zhu, Accounting for Chinaâ€™s Growth, 2010，IZA Discussion Paper No. 4764

Huang，Haizhou. and Chenggang Xu，1998，â€œSoft Budget Constraint and the Optimal Choices of Research and Development Projects Fiancingâ€•，Journal of Comparative Economics，26(1) ，62â€”79．

Hsieh，Chang-Tai. and Peter J.Klenow, â€œMisallocation and manufacturing TFP in China and Indiaâ€•, QJE, vol:cxxiv, November 2009, Issue 4.

Qian，Yingyi. and Chenggang Xu，1998，â€œInnovation and Bureaucracy under Soft and Hard Budget Constraintsâ€•，Review of Economic Studies，65，151â€”164．

Shoven, John B. and John Whalley, 1984, â€œApplied General Equilibrium Models of Taxation and International Trade: An Introduction and Survey,â€• Journal of Economic Literature, 22 (3): 1007-51.

Zheng，Jinghai.，Xiaoxuan Liu，and Arne Bigsten，1998，â€œOwnership Structure and Determinants of Technical Efficiencyâ€•，Journal of Comparative Economics，26(3)，465â€”484．