How China's Private Sector Policies are Evolving: Navigating Control, Growth, and Reform

Ying Zhu
University of South Australia, Australia

S. Tamer Cavusgil
Georgia State University, USA

Sebastian van der Vegt
WMBV Consulting, USA

Abstract

This essay examines the evolving roles of state-owned enterprises (SOEs) and the private sector in China's economy. It traces the historical development of both sectors, highlighting the initial dominance of SOEs and the gradual rise of private firms following market reforms. The analysis covers key policy shifts under President Xi Jinping's leadership, including the renewed emphasis on SOEs and subsequent challenges faced by private businesses. The essay discusses the impact of the COVID-19 pandemic on China's economic landscape and recent government initiatives to revitalize the private sector. It concludes by exploring the outcomes of the 20th CPC Central Committee's reforms and their potential implications for China's economic future, emphasizing the ongoing tension between state control and market liberalization. The study provides insights into the complex interplay between government policy, economic growth, and the balance of power between public and private sectors in China's unique economic model.

Chinese state media has recently stepped-up efforts to portray President Xi Jinping as the true heir to Deng Xiaoping, pointedly addressing international investors' worries about his reform agenda.[1] Given the emphasis on the role of State-owned Enterprises (SOEs) in the earlier years of his

presidency,[2] international onlookers are weighing up the scope and nature of the revitalization of the private sector, bearing in mind the key role of the state in guiding this process.

This essay provides an historical analysis of the evolving roles of state-owned enterprises and the private sector in China, from the period before President Xi's first term in 2013 to the present day. It explores key shifts in government policy, particularly the alternating emphasis on promoting private sector growth and reinforcing state dominance. We then delve into the rationale behind these policy changes and conclude by examining the outcomes of the recent 20th CPC Central Committee's reforms, as well as their still-uncertain implications for China's economic future.

Historical evolution of the development of public vs. private sectors

Starting in the 1970s under Deng Xiao-ping, China's reform agenda allowed for private companies to play an important role, while the country adopted an 'open-door policy,' towards foreign investment. Market-reforms generated an economy no longer solely dependent on centralized planning, as public and private sectors competed in the market.[3] Market forces brought prosperity to an expanding middle class, and permitted the emergence of numerous globally successful companies, some of which are now household names. It also generated uncertainties, however, that did not sit well with many in power, especially given the failure of market liberalization in Russia in the 1990s. Since the early 1980s, private firms have become the dominant source of growth in terms of output, employment, and exports, but have still faced numerous obstacles by comparison with SOEs, which have enjoyed governmental support for licensing, finance, and the right to operate in strategic sectors.

In China, the distinction between the state and private sectors is not straightforward. The relationship therefore merits clarification from the outset. The transformation of traditional SOEs into modern state firms began with the passage of the 1993 Company Law. This allowed for the formation of various types of shareholding companies, including both limited liability companies and shareholding limited companies – alternatively referred to as joint-stock companies. Since then, many traditional SOEs have been converted into limited liability or shareholding limited companies but are still controlled by the state to varying degrees.

Today, there are many ways in which enterprises in China are either directly or indirectly controlled. These include state-owned firms with 100% state-ownership; state-controlled firms where 50% or more of the paid-in capital or capital stock is controlled by the state, which thus remains the majority shareholder; and consultatively state-controlled firms, where the

state is not the majority shareholder, but exercises control by virtue of agreement, tacit or otherwise, with other shareholders.

Private sector firms also come in several varieties, including private companies, privately controlled limited liability companies and privately controlled shareholding companies.[4] In general, the former two varieties are relatively small, and often family-owned, while the latter are usually large in size, and most are listed on the stock market.

Economic Reform and Key Performance Indicators between Early 1980s and 2012

Since the early 1980s, when China's reform agenda was in full swing, the state's share of economic output has steadily declined. In 1980, state-owned enterprises were responsible for nearly 80% of gross industrial output, including sectors like manufacturing, mining, and utilities. By 2011, that figure had dropped to 25%, with state firms contributing only 20% of total manufacturing output.[5] The construction sector saw a similar shift, with the state's share falling from around three-quarters in 1980 to less than 40% by 2011, with private firms taking over the remaining 60%.[6]

In the service sector, private firms were allowed to enter wholesale, retail, and catering, while restrictions remained in strategically sensitive areas like information transmission, software, financial and leasing services, and information technology. Within the wholesale and retail industries, private businesses saw remarkable growth, increasing their share of total revenue from 0.1% to 50% between the late 1970s and late 1980s. By 2008, private firms accounted for two-thirds of the sector's total revenue.[7]

In urban areas, private firms' contribution to job creation was impressive. According to Lardy,[8] private sector employment expanded from a mere 0.2% of urban employment (150,000 workers) in 1978 to nearly two-thirds of the urban labor force (253 million) by 2011. This growth accounted for an astounding 95% of the increase in the urban workforce over two decades. Meanwhile, employment in state-owned and state-controlled enterprises dropped significantly, from 59.8 million workers (25% of the urban workforce) in 1999 to 45.1 million (12.5%) by 2011.

The shift in export contributions highlights the expanding influence of private firms in China's economic transformation. In the mid-1990s, state-owned enterprises were responsible for nearly two-thirds of the country's exports, with foreign firms contributing about a third, leaving domestic private firms with a negligible role. By 2012, the dynamic had shifted dramatically: domestic private firms accounted for 39% of exports, while the state sector's share dropped to just 11%, and foreign firms maintained around 50%.[9]

The rapid expansion of the private sector in the areas opened to them during the early years of economic reform is striking. Starting from a low base in revenue, employment, and exports, private firms grew gradually to become leading contributors to China's economic development. Over time, additional reforms lifted further restrictions, allowing the private sector to play an even more significant role in driving national growth. With the shifts in economic policy since 2013, the private sector's influence has only deepened. Next, we explore the effects of these more recent policy changes on private firms.

Economic Policy Shift and the Impact on Private Firms since 2013

President Xi's first term as China's leader, beginning in 2013, focused on structural reforms aimed at steering the country away from the so-called 'middle-income trap'—a situation where a country's growth slows after reaching middle-income levels, preventing it from advancing to high-income status.[10] Early on, a clear divide emerged among national leaders and advisors on how to sustain long-term growth. One side argued for increasing subsidies and protection for strategic industries, particularly SOEs, while the other advocated for market-based reforms, calling for a reduced role for SOEs and the removal of market-distorting supports.[11]

At the 2013 Third Plenum of the 18th CPC Committee, Xi's administration unveiled a 60-point reform plan, pledging to let "the market play a decisive role in resource allocation."[12] Despite this market-oriented language, the plan also reinforced the importance of SOEs, particularly in strategic sectors, highlighting the government's continued effort to balance state control with market liberalization.

As we set out earlier, the first three decades of economic reforms witnessed a decline in the share of state-owned enterprises in various sectors. In response, many 'left-wing' economists and policymakers in China sought to promote state-owned enterprises in national development and international expansion. Their ascendency in the early years of President Xi's leadership led to a greater emphasis on 'socialism' – emphasizing the importance of public ownership in the national economy.

Although Xi still claimed to adhere to Deng Xiaoping's reform agenda, the term 'socialism' repeatedly appeared in his speeches with a focus on maintaining the role of the party leadership in fostering economic development. This translated into an increase in the proportion of state-owned sectors in the national economy.[13]

Xi's policies favored state-controlled firms, through the famous sign of 'advancement of state-owned sectors and the retreat of private sectors' (*goujin mintui* in Chinese).[14] While diminishing the private sector may not

have been an explicit policy goal, it became an inevitable outcome as the state sector was given greater priority in strategic industries.

Several factors help explain the policy shift favoring state-owned enterprises. First, following the 2008/09 Global Financial Crisis, SOEs were instrumental in stabilizing the economy through large-scale government initiatives like infrastructure projects and the 'One Belt One Road' strategy, making them natural recipients of government grants.

Second, the government viewed SOEs as central to advancing high-tech innovation and industrial modernization, leading to policies that disproportionately benefited SOEs in key sectors critical to China's long-term goals.[15]

Third, financial support increasingly shifted toward SOEs, as they were perceived to align more closely with national strategic priorities. By 2016, SOEs were receiving 83% of loans, compared to just 11% for private firms, a dramatic reversal from 2013.[16] Other researchers also noted that SOEs benefitted from lower interest rates and favorable subsidies.[17]

As a result, despite private firms being more than twice as profitable as SOEs, they were disadvantaged. This led to growing calls from economists and business leaders for 'competitive neutrality'—ensuring that both private and state-owned firms receive equal treatment to foster a level playing field.[18]

Certain reforms may have also sprung from good intentions, but had unintended, deleterious consequences for the private sector. For instance, the crackdown on 'shadow banking,' aimed at curbing corruption, inadvertently blocked a crucial source of credit for many small private firms.[19] As a result, private firms—even successful ones—struggled to secure funding, particularly in competition with SOEs. This was largely due to private firms being perceived as riskier investments, whereas SOEs were seen as safe bets, backed by the government. Investors believed that authorities would not let SOEs fail, especially those tied to government-backed projects. Moreover, private firms were generally smaller and more dependent on export markets, making them more vulnerable to downturns in global trade.[20]

To summarize, the evolution of private firms in China over the past decade can be divided into distinct phases. By late 2012 and early 2013, private firms had largely capitalized on government liberalization efforts. However, starting in 2014, the pace of reform slowed, and new barriers began to emerge. SOEs regained dominance in key strategic sectors, such as upstream oil and gas, electric power generation, and transport infrastructure, accounting for 92% of investment in oil and gas, 70% in power, and between 73% and 96% in transport sectors.[21] Private firms remained largely blocked from entering these industries.

From 2017 to 2018, conditions become even more difficult for private firms. Access to credit tightened, and private firms faced steeper challenges in securing bank loans and raising capital through bond and equity markets. Interest rates on loans for private firms increased more rapidly, and the gap in bond yields and equity prices between private and state firms widened significantly.[22]

As lending to private firms plummeted, they found it increasingly difficult to raise funds in capital markets. At the same time, the contraction of shadow financing further restricted access to credit, leaving private firms struggling to compete.[23]

Covid-19 Pandemic and its Aftermath

The Covid-19 pandemic marked a turning point for China's private sector. Lockdown policies severely restricted business operations, prompting the government to introduce supportive measures for both public and private sectors. This intervention was essential. Yet, the full impact on China's private sector remains hard to measure, especially given the country's tendency only to publicize data that casts it in a favorable light. Early indicators, however, painted a stark picture: nearly 68% of small and medium enterprises (SMEs) faced sharp revenue declines, over 21% struggled with debt repayments, and 86% could only sustain operations for a few months without additional funds.[24]

In response, the government made the provision of liquidity to banks conditional on lending to private firms, effectively prioritizing access to credit. Large banks were instructed to allocate at least 40% of new corporate lending to private firms, while fiscal incentives, like interest exemptions on loans to small businesses, were also offered. A state-owned credit guarantee fund helped mitigate credit risk on private firm debt.[25,26]

Post-lockdown, financial pressures have eased slightly, as private sector bond yields rise with increased credit support. Still, the government faces a persistent challenge in balancing financial stability with market-driven credit allocation. Long-term reforms aim to guide China's financial markets toward more market-oriented credit distribution, yet deep-seated systemic issues may limit the impact of these initiatives.[27,28]

In China's post-Covid-19 recovery, the private sector has played an essential role in stabilizing the economy, contributing a 6.1% rise in trade activity and a 9.1% increase in private investment across manufacturing and services.[29] Government policies have introduced six initiatives, including digital transformation and easing investment access, to boost private sector involvement in traditionally state-dominated sectors, like IT and ecological projects.[30] However, prior implementation failures, coupled with calls for

alignment with national goals, underscore a tension between market freedom and state control that may diminish the effectiveness of these measures.

Overall, while private firms have experienced many barriers and constraints since 2013, their contribution to national economic performance has only increased. The total number of registered private firms increased from 61 million in 2013 to 154 million in 2021.[31] Private firms' share of all economic entities rose from about 79% to more than 92% between 2012 and 2023.[32] This sector is often summed up by a combination of four important indicators, namely 60/70/80/90: 60% of total GDP, 70% of innovative capacity, 80% of urban employment and 90% of newly created jobs.[33]

The reality in China is that even during Xi's emphasis on 'socialism' and the ascendancy of the public sector since 2013, the centrality of private firms to the vibrancy, growth, and stability of China is obvious. Thus, once economic conditions deteriorated after the outbreak of Covid-19, alongside increased geopolitical tensions between China and the U.S., the party's ideological line gradually shifted. This culminated in the publication on September 15, 2021, of the Party and State Council opinion "United Front Work" on strengthening the private sector. Its content reflected a major change in emphasis, promoting private business over state enterprise.[34]

Lastly, it should be mentioned that while foreign private firms make up a smaller portion of China's private sector, they have become key players in industries where the government seeks to tap into international expertise and capital. Despite enduring challenges—such as regulatory hurdles, geopolitical tensions, and compliance risks—some multinational enterprises (MNEs) have made significant inroads. BlackRock, J.P. Morgan, Bridgewater Associates and Goldman Sachs, for example, have expanded their presence in China's cautiously liberalizing financial sector. In 2021, American Express became the first foreign entity licensed to process Chinese Renminbi (RMB) transactions in China. In the automotive sector, Tesla's fully owned Gigafactory in Shanghai is a notable example of China allowing foreign firms deeper access to strategic industries.[35]

Despite these high profile success stories, the operating environment for foreign firms remains far from simple. Regulatory complexity and heightened scrutiny—especially in sectors seen as politically sensitive—are ongoing challenges. Foreign firms must navigate a landscape where policies can shift in response to geopolitical pressures and the Chinese government's broader strategic objectives. While foreign companies bring valuable expertise in technology and management, their success is often contingent on their ability to adapt to China's evolving priorities and often puzzling regulatory frameworks.

Discussion and Conclusion

This short essay has outlined the key historical and recent policy shifts of the Chinese government in relation to the private sector. In the face of growing economic challenges, unfavorable demographic trends, a property crisis, and rising geopolitical tensions, the government announced it is adjusting its approach to ensure sustainable growth.

At the 3rd plenary session of the 20th Central Committee in July 2024, the Chinese government outlined ambitious reforms aimed at strengthening market mechanisms, enhancing competition between public and private sectors, and improving market access for domestic and foreign firms. The resolution also focused on integrating the real and digital economies, modernizing infrastructure, and reinforcing supply chain resilience.[36]

While these goals signal a positive shift, execution remains uncertain. The messaging is somewhat contradictory: the CCP continues to emphasize state control while advocating for stronger market mechanisms.[37] The expectation that private firms align with national strategic goals complicates their ability to operate freely, especially in key industries.

Moreover, China's track record of reform implementation is mixed. Similar initiatives in 2013 stalled due to resource constraints and resistance from ideological opponents, particularly in terms of maintaining social welfare and using fiscal policy to drive growth. Current plans, though promising, may face similar challenges.[38]

The move to stimulate the Chinese economy coincided with a reduction in U.S. interest rates, sending out a clear signal that the government was serious in its efforts to revitalize both the stock market and property market. Among the highlights of the stimulus package, which are by now well publicized, are a 50 bps rate cut on existing mortgages, a cut in down payment requirements for second homes, a cut in reserve requirements, medium term lending rates and a US $110 billion preferential loan to support stock repurchases and buybacks.[39] While significant, it did not include direct support for small businesses, and it is also raised questions about the nature of stock buybacks, which typically occur when companies post healthy profits.

While the markets have reacted favorably,[40] with Chinese stocks rising by more than 20% since the summer, the real test will be whether these policies are enough to reinvigorate the broader economy. The balancing act between stimulating growth and managing financial risks remains delicate. Historically, China has alternated between stimulus and restraint, with previous efforts leading to temporary boosts, only to be scaled back as concerns about debt mounted.

Hence, while this latest stimulus effort signals a renewed focus on growth, caution is warranted. Beyond external geopolitical concerns, the Chinese government faces an internal struggle: it needs the private sector to drive economic growth and maintain social stability, yet its instinct for control often clashes with free-market dynamics. Ultimately, success hinges not only on how well these policies are implemented, but also on the broader global context—especially the approach of the next Presidential administration.

As China seeks to balance private sector growth with state control, businesses will need to navigate a complex and evolving landscape where market opportunities are shaped by both internal policy shifts and external geopolitical forces. Those that succeed will do so by pragmatically aligning with state priorities while expanding market boundaries, setting the stage for China's next phase of economic evolution.

Authors

Ying Zhu is Professor and Co-Director of the C-EDGE at the University of South Australia. He was born in Beijing and graduated from Peking University with a Bachelor of International Economics in 1984. He worked as an economist at Shenzhen Special Economic Zone in China between 1984 and 1988 and completed his PhD on the role of export processing zones in East Asian development at the University of Melbourne between 1989 and 1992. After that, he worked at Victoria University and Melbourne University for 17 years before joining UniSA in 2011. He has more than 170 publications in the areas of international human resource management, international business, entrepreneurship, economic development and labor laws in Asia.
email: ying.zhu@unisa.edu.au

S. Tamer Cavusgil is Regents' Professor and Fuller E. Callaway Professorial Chair and Executive Director, CIBER, Robinson College of Business, Georgia State University. A trustee of Sabanci University in Istanbul, Turkey. Tamer authored more than several dozen books and some 200 refereed journal articles. He mentored over 40 doctoral students at Michigan State and Georgia State who have become accomplished educators around the world. Tamer holds an honorary doctorate from The University of Hasselt and the University of Southern Denmark, in addition to being named as an Honorary Professor by Atilim University in Ankara, Turkey. He is an elected Fellow of the Academy of International Business. Tamer holds a Bachelor of Science degree from the Middle East Technical University in Ankara, Turkey. He earned his MBA and PhD from the University of Wisconsin.
email: stcavusgil@gsu.edu

Sebastian van der Vegt is a founding partner at WMBV Consulting and President of the Netherlands Chamber of Commerce for the Southeastern United States. With over two decades of experience in management, international communications, and

business development, he has successfully guided organizations through complex global markets to drive growth and innovation. Sebastian spent over a decade at The Coca-Cola Company, where he led strategic communications across 92 countries, enhancing brand equity and strengthening stakeholder relationships. Earlier in his career, he worked with the United Nations Development Program (UNDP) and the International Labour Office, co-authoring Raising the Bar, an authoritative book on corporate responsibility with a foreword by UN Secretary-General Kofi Annan. A true global citizen, he has lived and worked in six countries and visited over 75, gaining invaluable insights into cross-cultural collaboration and global business dynamics. Sebastian holds an MBA from Dalhousie University, a Bachelor's degree in Psychology from the University of Calgary, and a diploma in Strategic Communications from Columbia University.
email: sv@untold-communications.com

Endnotes

1. Zhang, P. (2024, July 20). Chinese state media touts Xi Jinping's commitment to private sector. *The Star*.
2. China Briefing. (2019, April 3). Economic reform in China: Current progress and future prospects. *China Brief*.
3. Lardy, N. (2016). The changing role of the private sector in China. *Reserve Bank of Australia Annual Conference*.
4. National Bureau of Statistics of China. (2015). *China statistical yearbook 2015*. China Statistics Press.
5. Lardy, N. (2014). *Markets over Mao: The rise of private business in China*. Peterson Institute for International Economics.
6. Ibid.
7. Ibid.
8. Lardy, N. (2016). The changing role of the private sector in China. *Reserve Bank of Australia Annual Conference*.
9. Lardy, N. (2014). *Markets over Mao: The rise of private business in China*. Peterson Institute for International Economics.
10. China Briefing. (2019, April 3). Economic reform in China: Current progress and future prospects. *China Brief*.
11. Zhu, Y., Sardana, D., & Cavusgil, S. T. (2021). *Weathering the storm in China and India: Comparative analysis of societal transformation under the leadership of Xi and Modi*. Routledge.
12. China Briefing. (2019, April 3). Economic reform in China: Current progress and future prospects. *China Brief*.
13. Zhu, Y., Sardana, D., & Cavusgil, S. T. (2021). *Weathering the storm in China and India: Comparative analysis of societal transformation under the leadership of Xi and Modi*. Routledge.
14. Liu, X. P. (2019). *Market vs. government in managing the Chinese economy: Domestic and international challenges under Xi Jinping*. China Research Centre.

15. Zhu, Y., Sardana, D., & Cavusgil, S. T. (2021). *Weathering the storm in China and India: Comparative analysis of societal transformation under the leadership of Xi and Modi*. Routledge.
16. Lardy, N. (2019). *The state strikes back: The end of economic reform in China?* Washington, D.C.: Peterson Institute for International Economics.
17. Harrison, A., Meyer, M., Wang, P., Zhao, L., & Zhao, M. (2019, January). Can a tiger change its stripes? Reform of Chinese state-owned enterprises in the penumbra of the state. *NBER Working Paper*.
18. Liu, X. P. (2019). *Market vs. government in managing the Chinese economy: Domestic and international challenges under Xi Jinping*. China Research Centre.
19. Zhu, Y., Sardana, D., & Cavusgil, S. T. (2021). *Weathering the storm in China and India: Comparative analysis of societal transformation under the leadership of Xi and Modi*. Routledge.
20. Bowman, J. (2019, December). Conditions in China's corporate sector. *RBA Bulletin*.
21. National Bureau of Statistics of China. (2015). *China statistical yearbook 2015*. China Statistics Press.
22. Bunny, M. (2020, September). Private sector financial conditions in China. *RBA Bulletin*.
23. Ibid.
24. Ma, Z., Liu, Y., & Gao, Y. (2021, December 9). Research on the impact of COVID-19 on Chinese small and medium-sized enterprises: Evidence from Beijing. *PLOS ONE*.
25. Bunny, M. (2020, September). Private sector financial conditions in China. *RBA Bulletin*.
26. Li, K. Q. (2020, May 22). *Report on the work of the government*. National People's Congress of the People's Republic of China.
27. Bunny, M. (2020, September). Private sector financial conditions in China. *RBA Bulletin*.
28. Cunningham, E. (2022). What is the future of China's private sector? *Harvard Kennedy School*.
29. Begum, K. (2024, January 7). Private sector development to keep Chinese economy afloat in 2024. *CGTN News*.
30. Ibid.
31. Xinhua. (2024, July 19). CPC Central Committee adopts resolution on further deepening reform comprehensively. *Xinhua News*.
32. Zhang, P. (2024, July 20). Chinese state media touts Xi Jinping's commitment to private sector. *The Star*.
33. Cunningham, E. (2022). What is the future of China's private sector? *Harvard Kennedy School*.
34. Ibid.
35. Ibid.
36. Xinhua. (2024, July 19). CPC Central Committee adopts resolution on further deepening reform comprehensively. *Xinhua News*.
37. Drinhausen, K., Zenglein, M. J., & Arcesati, R. (2024, August 1). Having it both ways: Third Plenum promises reforms and doubles down on Xi's grand vision. *The Diplomat*.
38. Lubin, D. (2024, October 16). China's economic policy pendulum has swung towards stimulus – but keep expectations low. *Chatham House*.

39. Mocuta, S. M. (2024, September 30). China's latest stimulus: Boosting price, not earnings. *SSGA*.
40. Friar, K., & Schafer, J. (2024, September 30). Stock market today: S&P 500, Dow hit fresh records, China stocks soar on new stimulus. *Yahoo Finance*.