The theoretical understanding and strategic measures of the functional value of State-owned enterprises in the new era

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Abstract. The current global economic practice can tell us that national competition is the underlying structure of global market competition, innovation is the core factor to create the competitive power of dominant enterprises in the global market and dominates the global income distribution. However, when market competition will reshape the distribution pattern, the global market governance will fail. In this context, Chinese state-owned enterprises, due to their extensive layout and advantages, need to take greater responsibility in innovation and other aspects. To this end, we need to adhere to market-oriented reform, take core technological innovation as the key grasp, and fully follow the commercial orientation to give full play to the incentive compatibility role.

Keywords: State-owned enterprises; Functional value; Theoretical understanding.

1. Introduction

As the political and economic foundation of our socialist system, state-owned enterprises continue to play a "mainstay" role in our economic development[1]. The 20 National congresses of the Communist Party of China drew up a blueprint for the rejuvenation of the Chinese nation through Chinese-style modernization. They laid out new and higher requirements for state-owned enterprises, including improving their core competitiveness, core functions, industrial control, scientific and technological innovation, and safety support. So, how to understand the function value of state-owned enterprises in theory, and how to grasp it in practice? This article tries to put forward some thoughts and suggestions.

2. The theoretical understanding of the functional Value of State-owned Enterprises in the new era

In recent years, as China competes with the United States and other developed countries in more and more key fields, the United States and Western Europe have adopted the methods of "cut off supply", "entity list" and even direct sanctions on individual enterprises to strengthen the scientific and technological containment of our country. The author believes that the anti-globalization and anti-market domineering behavior in the United States, Western Europe and other countries can promote our understanding of the global market competition in three aspects:

1) National competition is the underlying structure of global market competition

Due to the lack of cross-border mobility of population, land, social system and other factors, there are objective national restrictions on employment, taxation, social welfare, security and so on. Transnational trade and global competition of enterprises show strong national characteristics. In other words, when a country's products are more favored by the global market and its enterprises have stronger market competitiveness in the global market, its citizens can have more and better job opportunities, and its government can have more tax revenue, stronger public service capacity and national security capacity. From the perspective of the history of market evolution, the emergence of the global market was originally realized by countries based on their own interests and through negotiation, rather than being naturally generated and fixed. Therefore, national competition is the underlying structure of global market competition, and enterprise market competition is bound to be limited by the relevant policies of the home country and the host country, while enterprise competition is the key factor that determines the success or failure of national competition.
(2) Innovation is the core factor to create the competitiveness of competitive enterprises in the global market and dominates the global income distribution

What are the factors that affect the competitiveness of a country's enterprise group in the global market? The author believes that high technology, which is hard to imitate and replace based on innovation, is the core source of creating enterprises' global competitiveness. At the same time, from the perspective of distribution, although the profit distribution in market competition and cooperation is formed spontaneously by the market, it is obviously very unbalanced and unfair from the distribution result, and the "big head" is generally taken away by enterprises with high technology advantage. For example, 118 mainland non-financial companies (including Hong Kong) on the Fortune 500 list in 2022 achieved a combined profit of US $284.77 billion, even less than the profits of five US high-tech companies including Apple, Alphabet, Microsoft, Meta and Amazon (US $304.72 billion).

(3) When market competition will reshape distribution, there is a failure of global market governance

The market competition theory mainly discusses the efficiency, but basically does not discuss the distribution problem, which is the function of the public government should solve, and its principle is mainly to consider the fairness. When the market competition of enterprises reaches a certain level and may reshape the distribution pattern of interests among countries, it is bound to lead to conflicts between national interests. Could there then be a global government that could co-ordinate distribution? Based on this, it is easy to understand that when China's economic transformation and upgrading to a higher stage will compete with the United States and other developed countries in many areas of high technology, it is bound to affect the latter's ability to "harvest" global earnings, and then lead to the adjustment of relevant trade competition policies and even directly suppress the behavior of relevant enterprises.

In this case, it is not difficult for us to draw a conclusion. The free market competition advocated by the Western world is not "pure". When other countries develop to a certain extent and challenge their core interests, there will be a failure of global market governance. In this case, state-owned enterprises need to take on major responsibilities in innovation and other aspects. The reasons are twofold:

First, this responsibility is universal. Both state-owned and private enterprises in China need to bear it. As state-owned enterprises are widely distributed, especially concentrated in important industries and key fields such as petroleum, electric power and aviation, it is incumbent on them to shoulder their responsibilities in relevant industries and fields.

Second, due to the failure of global market governance, Chinese enterprises are facing increased difficulties, rising costs and steep risks in core technology research and other aspects. Private enterprises are afraid to invest, unwilling to invest, unable to invest and other difficulties may worsen. State-owned enterprises have certain advantages due to their large scale and solid development foundation, so they need to exert greater strength and make more contributions.

3. The Strategic measures for state-owned enterprises to exert functional value in the new era

In order to implement the central government's strategic deployment and give better play to the functional value of soes, we need to focus on the following aspects:

(1) Continue to pursue market-oriented reform

The practice of state-owned enterprise reform since the reform and opening up tells us that market-oriented reform is the most correct direction of reform, the core includes the restoration of enterprise attributes and the construction of competitive environment. Therefore, to give full play to the function of state-owned enterprises in the new era should continue to adhere to market-oriented reform. On the one hand, we will continue to deepen corporate reform, improve corporate governance, and reform the three systems on the micro level of enterprises, so as to transform soes from qualified market
players into high-level players of market competition. On the other hand, we should pay attention to the construction of effective competition market competition structure, competition is the most core mechanism of the market, especially to support and protect the private economy, the latter is an important component of optimizing the competitive environment\[^2\]. The correlation coefficient between state-owned holding enterprises and private holding enterprises during 2005-2021 is 0.51, indicating that there is a moderate positive correlation between them.

(2) Take the core technology innovation as the key grasp

Faced with policy requirements such as "build a world-class enterprise", "improve core competitiveness" and "strengthen industrial control", many soes feel that their tasks are intertwined and they have no way to start. The author believes that breaking through and mastering the core technology is the core line and the key grasp. Well-known companies such as Apple and Tesla fit our understanding of the ideal goal. Take Apple as an example. It is the world's most famous technology company, accounting for nearly 90% of the total profits of the global smartphone market \[^3\]. It is the world's most profitable multinational company with the largest market value for many years, and its high-tech attribute is the solid foundation for its world-class market competitiveness, industrial control and security support. But at the same time, we must also recognize the two characteristics of innovation: first, innovation is a long period of slow work, is a continuous process accumulated over a long period of time, requires enough patience; Second, with today's economic development, many cutting-edge technological innovations are dependent on global cooperation. For example, the birth of EUV lithography machine is the result of global cooperation \[^4\], so technological innovation cannot be made behind closed doors.

(3) Fully follow the commercial orientation, play the role of incentive compatibility

State-owned enterprises are enterprises with special nature established by the government, but in the final analysis, their fundamental attribute is still economic organization, and commercial logic should still be the basic principle to define what state-owned enterprises should do and how to do in the functional value. The commercial logic here is not purely profit-oriented, but fully considers its own advantages and disadvantages and measures the input-output efficiency. And keep consistent with the future development direction of the enterprise\[^5\]. For state-owned enterprises, their business logic is different from non-state-owned enterprises, which needs to be considered from the perspective of the whole society. Taking technological innovation as an example, as China is in the catch-up stage, enterprises spend a lot of cost to make breakthroughs in some key technologies, which may lead to the foreign enterprises that originally mastered the key technologies to significantly reduce the price. The final result may be "benefit > cost" from the perspective of the whole society, but "cost > benefit" for the enterprises implementing technological innovation. Such technologies need to be cracked by state-owned enterprises, with subsidies to cover research and development costs and incentives for profits. For another example, as for the cross-field top cutting-edge technologies such as EUV lithography machine, due to the combination of top technologies in many fields and the extreme complexity, it may not be able to be solved only at the enterprise level, requiring joint research and development at a higher level.

4. The conclusions and recommendations

Under the current situation, we can realize that national competition is the underlying structure of global market competition, innovation is the core factor to create the competitiveness of competitive companies in the global market, leading the global income distribution, and when market competition will reshape the distribution pattern, there is a failure of global market governance. Because of the universality and special advantages of the state-owned enterprise layout, the state-owned enterprise has taken on a great responsibility in innovation and other aspects. The suggestions in this paper include three aspects: continue to adhere to market reform, take core technology innovation as the key point, and fully follow the commercial orientation to play the role of incentive compatibility.
References


