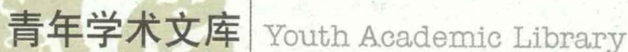

混合寡头市场分析

An Analysis of Mixed Oligopoly Market

>> 韩丽华 著

山东大学出版社

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Chapter 1

Mixed Oligopoly and Market-Opening Policies: The Case of China

1.1 Introduction

Mixed oligopoly, which means that public firms compete with private firms, has been one of the important research subjects in public economics. In 1966, Merrill and Schneider, who first explored this economic phenomenon, claimed that mixed oligopolies are fairly common in developing countries and are likely to be more common in years ahead (Merrill and Schneider, 1966). Undoubtedly, even though more than forty years have passed, their judgment still holds true. Moreover, the form of mixed oligopoly, which could be observed more often today not only in developing countries but also in developed countries, changes from only comprising domestic firms to comprising foreign firms as well. In other words, the competitors of public firms include foreign firms as well as domestic private firms. The markets where public firms interact with both domestic and foreign private firms, which are called as international mixed oligopolies, have been more and more common with the trend of economic liberalization in recent years. The trend of economic

liberalization has resulted in many publicly-owned firms being fully or partially privatized and has also resulted in many countries opening markets towards foreign investment. A notable example is EU. In spite of the consensus existing in Western European countries in favor of a mixed economy including both publicly-owned firms and private firms. EU countries privatized part of their publicly-owned firms in the 1980s. In the 1990s, the creation of Single Market sparked further privatization. Privatization is a national issue and the various EU members have progressed at different rates. Simultaneously, the degree of free trade is increasing within the EU (Barcena-Ruiz and Garzon, 2005). Other examples are China, India, Russia, and the so-called transition economies in Central and Eastern Europe, etc. In these countries, governments have adopted the policies of privatization of domestic public firms and open-door to foreign capital. Thus, one can observe a large variety of markets in which public firms and domestic and foreign private firms produce similar commodities and compete on equal terms.

In the following statements in this chapter, I take my native country, China, as an example because there are many mixed oligopoly markets with foreign firms in China and also because of China's influence as a major player in the wider world economy.

The remainder of the chapter is organized as follows. Section 2 introduces which of market-opening policies have been pursued in China by reviewing briefly the evolution of economic reform for three decades in retrospect. Section 3 mentions the main issues in policy debates and explains the necessity of theoretical analyses. Section 4 concludes the chapter.

1.2 China's economic reform: a market-opening process

The high rate of economic growth during the past 30 years in China is attributed to the economic reform started in 1978[①]. This persistent economic reform might be characterized as the process of market-opening: the privatization of public firms, the stimulation of the private economic growth and the promotion of foreign investment. Table 1.1 lists the main open-door policies since 1978.

Table 1.1 Open-door policies

Chronology of economic reforms in China	
1978	"Open door" policy initiated, allowing foreign trade and investment to begin
1979	Decision to turn collective farms over to households Township and village enterprises (TVEs) given stronger encouragement
1980	Special economic zones created
1984	Self-proprietorships (getihu) encouraged, of less than 8 persons
1986	Provisional bankruptcy law passed for state-owned enterprises
1987	Contract responsibility system introduced in state-owned enterprises
1988	Beginning of retrenchment of TVEs
1990	Stock exchange started in Shenzhen

① According to official statistics, economic growth has averaged 9.5% since 1978, and seems likely to continue at that pace for some time. National income has been doubling every eight years. Such an increase in output represents one of the most sustained and rapid economic transformations seen in the world economy in the past 50 years (See the OECD *Observer* No. 251, p. 14, 2005).

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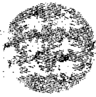
1993	Decision to establish a "socialist market economic system"
1994	Company law first introduced Renminbi begins to be convertible on current account Multiple exchange rates ended
1995	Shift to contractual terms for state-owned enterprise staff
1996	Full convertibility for current account transactions
1997	Plan to restructure many state-owned enterprises begins
1999	Constitutional amendment passed that explicitly recognizes private ownership
2001	China accedes to the World Trade Organization (WTO)
2002	Communist party endorses role of the private sector, inviting entrepreneurs to join
2003	Decision to "perfect" the socialist market economic system
2004	Constitution amended to guarantee private property rights

Source: OECD *Economic Survey of China* 2005.

One of the essential parts of the economic reform has been to allow private economic growth and privatize state-owned enterprises. The transformation of permitting private ownership started in the agricultural sector three decades ago and was extended gradually to industry and large parts of the service sector. Price regulation was essentially dismantled by 2000 outside the energy sector. To encourage private economy, the government introduced or revised a large number of laws and regulations. Today, private individuals can not only own limited liability corporations but also enter majority industries of the economy, even including infrastructure, public utilities and financial services. Meanwhile, the government has also introduced wide ranging reforms into the state-owned sector that

dominated the economy in the early 1990s. The policies in the 1980s and early 1990s were to revitalize state-owned enterprises through decentralization, improvement of internal managerial and incentive systems, and introduction of market competition. Since the mid-1990s, the government has decided to further its previous effort by building the so-called modern enterprise system. Specifically, the government attempts to improve the performance of large and medium-sized state-owned enterprises by encouraging mergers and acquisitions, standardizing bankruptcy procedures, laying off redundant workers, and converting traditional state-owned enterprises into limited liability companies or joint stock companies (Zhang and Zhang, 2001). The reform of state-owned enterprises had been the centerpiece of China's economic reform, evolving from the introduction of a "contract system" in the 1980s into the separation of business management from state ownership in the early 1990s. Since the mid-1990s, the Chinese government has intensified the reform of state-owned enterprises by restructuring state-owned enterprises into limited liability companies or joint stock companies, and converting debt to stock, a process termed "corporatization" or "partial privatization". When a joint stock company is listed, it issues three classes of common shares: state, institutional, and individual shares (tradable domestic A-shares). While the Chinese government made clear its intention to retain a controlling stake in the country's largest state-owned enterprises, it has also contemplated various ways to reduce its holding stock in state-owned enterprises (Sun, Zhang and Li, 2005). The Chinese Communist Party committed the country to a massive privatization program under the slogan "seize the large, release the small", which roughly translated as privatizing all



but the largest 300 or so state-owned enterprises in 2000①. The number of state-owned enterprises now is reduced to 129, which is intended to fall to approximately 100 by the end of 2010. Table 1.2 is the data on the contribution of public sector and private sector to GDP, which embodies the outcome of the reform measures.

Table 1.2 Contribution of public sector and private sector to GDP (%)

Year	Public sector	Private sector
1978	99	1
1990	48	52
1995	42	58
2000	37	63
2005	39	61
2009	36	64

Source: *China Statistical Yearbook* (1979-2010)

From Table 1.2, it is shown that, as a whole, the contribution of public sector to GDP decreases while the contribution of private sector to GDP increases. In 1978, 1990 and 2009, the contribution rate of public sector to GDP is approximately 1, 1/2 and 1/3, contrarily the contribution rate of private sector to GDP is approximately 0, 1/2 and 2/3 respectively. Table 1.2 tells us that the measures of the economic reform by the Chinese government result in the emergence of a powerful private sector in the economy while public sector still holds a non-negligible proportion.

Another key element of economic reform has been the promotion

① See Lin, Cyril(2000), Cooperate Governance of State-owned Enterprises in China, Working Paper, Asian Development Bank, Manila.

of foreign capital inflow. China has made great strides in its reforms to open up its market for international investors. To create good business environment, China has amended a series of laws, regulations and provisions, and endeavored to establish a more transparent legal framework. Also, China has been relaxing and liberalizing the areas and industries for foreign investment although only a few of cities and industries could be invested at the start of reform. Now almost all areas and most industries are open up to foreign capital. Moreover, Chinese government implemented a series of preferential measures to foreign-invested firms, especially tax incentives. The income tax rate is 15 percent for foreign-invested firms while it is 33 percent for domestic firms. Other available incentives include significant reduction in land fees, import and export duties, and priority treatment in obtaining basic infrastructure services such as supplies of water, electricity and transportation, etc. As a result of the active governmental promotion through various policy measures, foreign capital in China has grown rapidly since 1978 and foreign-invested firms have been a significant component of the Chinese economy. A new World Bank report—Foreign Capital Utilization in China: Prospects and Future Strategy (2007)—makes a comment and prediction as follows:

> China has been very successful in attracting Foreign Direct Investment (FDI). Attracted by the country's relatively good investment climate and low wages, and more recently by its growing domestic market, China received about a quarter of all FDI to developing countries over the last 10 years, and a record \$ 60 billion in 2004, some 9.9 percent of total FDI. In the years from 2006 to 2010, China is expected to account for 30 percent of

the projected $ 250 billion of FDI inflow to the developing countries. (pp. 4—5)

Table 1. 3 is the data on China's actual usage of FDI since the policy of the encouragement of foreign capital inflow has been implemented. FDI to China has increased dramatically since 1978. From 1978 to 2009, China's actual usage of FDI grows from about US$ 100 million a year to more than US $ 9,000 billion a year. China has been the world largest FDI recipient among developing countries since early 1990s. At present, after more than thirty years' economic reform, China is one of the most important destinations for cross-border direct investment.

Table 1. 3 China's actual usage of FDI (million US dollars)

Year	FDI	Year	FDI
1979	109	1980	195
1981	375	1982	440
1983	636	1984	1258
1985	1661	1986	1874
1987	2314	1988	3194
1989	3392	1990	3487
1991	4366	1992	11007
1993	27515	1994	33767
1995	37521	1996	41725
1997	45257	1998	45463
1999	40319	2000	40715
2001	46800	2002	52700
2003	53500	2004	60600
2005	60325	2006	63021
2007	74700	2008	92395
2009	90030		

Source: *China Foreign Economic Statistical Yearbook* (1980—2010).

1.3 Regulation on foreign capital and privatization of public firms: the principal subjects

Few would deny that the China's extraordinary economic performance has been driven by economic reform, and in particular by two main policies: privatization of public firms and active promotion of foreign capital, which cause China's economy to transform from a centrally planned economy dominated by the state sector to a market-oriented economy consisted of firms with various ownership forms. However, these policies by government have still given rise to much controversy.

For example, many believe that foreign capital has brought positive effect on China's domestic economy. (1) FDI not only can solve the capital shortage problem but also can provide better access to technologies for the local economy and conduce to indirect productivity gains through spillovers. (2) FDI has been at the core of China's foreign trade expansion. (3) FDI created jobs. FDI inflows are expected to influence employment and wages in a local market primarily through shifts in labor demand (at least in the short-run). FDI usually leads to higher employment and wages. Oppositely, others are worried about the detrimental impact of FDI on Chinese economy. They argue that FDI firms increase the degree of competition or even monopolize markets; they squeeze out domestic capital and hinder the growth of local enterprises. Also, FDI cause profits flow away and government revenue loss. In addition, foreign

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