

Matt Zacharski  
 Chinese Popular Culture  
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 Shaohua Guo

## **Asset Allocation and Popular Culture: Examining Chinese State Investments**

### **Abstract:**

During the Fourteenth Party Congress in 1992, the Chinese Communist Party (CCP) declared the objective of establishing socialist market economy. This shift away from “Maoist Socialism” to “Capitalism with Chinese Characteristics” has given rise to the second largest economy in the world (Sigley, 2006). A socialist market economy can be characterized by a government’s extensive use of public ownership and state-owned enterprises (SOEs) within a traditional market economy. Through the early 1980s and into the late 1990s, the annual average growth rate of China’s gross domestic product was 10 percent (International Labour Office 2000). In part due to this explosive growth, there has been much scholarship written with regards towards how the CCP allocates capital in China’s socialist market economy. Unfortunately, much of the literature on the CCP’s control of the economy concentrates on economic points of view. This paper will focus on CCP’s investments in the economy and their ability to impact Chinese popular culture. CCP investment, asset allocation, or capital allocation all refer to Chinese use of state funds. Examining several research papers on the topics of state-owned enterprises, incubators, and other forms of investment, I find that the CCP’s influence on the economy can play a significant role in the development of popular culture in China. However, it mostly does not exercise this power due to the nature of SOEs and Chinese incubators. This paper will also examine two case studies to solidify this argument. Analyzing a portion of the CCP’s investments and economic decisions from a popular culture point of view yields valuable insights into the priorities and impacts of CCP decisions.

**Keywords:** SOEs, SASAC, Incubator, ZTE, CFG, Investment, Asset Allocation

### **Introduction:**

Deng Xiaoping’s introduction of the ‘open door’ policy in 1978 led to several decades of rapid growth within China’s economy (Morris, Hassard, Sheehan, 2002). With this rapid growth has come a wave of both state-owned and private multi-billion dollar enterprises. As of 2010-2011, 204 of the world’s largest 2000 companies were classified as SOEs (Kowalski, Büge,

Sztajerowska, Egeland, 2013). Of these 204 SOEs, 74 were based out of China (Kowalski, Büge, Sztajerowska, Egeland, 2013), more than any other country examined.

China's high concentration of SOEs is notable for several reasons. Namely, their large output and political clout. In 2007, corporations under the State Asset Supervision and Administration Commission (SASAC), one of China's SOE overseers, accounted for 4 percent of China's gross domestic product. (Naughton, 2008) These SOEs have become increasingly complex, and can vary dramatically in size, technological advancement, and profitability (Warner, 2001). Due to several related factors, the nature of SOEs make it difficult for the CCP to use SOEs to directly influence popular culture. Barry Naughton, as well as Li Ran, have written several articles that shed light on this topic.

Examining CCP investment in non-SOEs, namely in early stage companies through incubators, is also useful when exploring the relationship between Chinese popular culture and CCP's allocation of assets. An incubator is typically a company that provides services to startups and other early stage companies. These services can range from legal and managerial advice to reduced rent office space and introductions to investors (Harwit, 2002). State Funded incubators have large amounts of influence on the early stage companies they work with, consequently this is where the CCP has the ability to exert significant influence on the development of Chinese popular culture. This paper will utilize literature by Eric Harwit, Aruna Chandra, and Tim Fealey, who have contributed significantly to the scholarship on the landscape of Chinese incubators.

The government's inclination to take the course of action that involves the least amount of direct interference, whether it be in an economic or social setting, has been something we have

seen continuously throughout this course. The CCP seems to be concerned with maintaining its power rather than imposing its power on citizens. Evidence of this ideology can be found in the CCP's interactions with SOEs, incubators, and other forms of corporate governance.

In addition to the above topics, this paper will cover a case study of ZTE, an SOE that is a telecommunications equipment company. This case study will be contrasted with another case study on the Chinese Film Group, a social service organization SOE. These case studies will draw upon literature by Li Ran and Emilie Yeh and Darrell Davis, respectively on the topics of ZTE and the Chinese Film Group.

These topics and case studies show that the CCP has the power to influence the development of Chinese popular culture from an asset allocation point of view but does not due to inefficiencies and superior alternatives.

### **Incubators as a Form of State Investment:**

Incubators can be characterized as “economic development tools” (Chandra and Fealey, 2009) that are used by most countries. Chandra and Fealey write that an incubator typically “...provides a safe haven for a firm in its early stages of growth through a mix of tangible and intangible services” (Chandra and Fealey, 2009). Examples of tangible services typically include generic office space and lowered rent while intangible services may include consulting services and connections with potential investors. Additionally, it is not unusual for incubators to invest in particularly promising incubatees (Chandra, He, and Fealey 2007).

Evidently, incubators can play a large role in both a country's economic development and popular culture development. Companies that go through incubators tend to be companies that produce a high societal impact when it comes to popular culture, such as technology companies,

as opposed to a utilities company. Unsurprisingly, the CCP plays a large role in the Chinese incubator industry, providing significant funding (Chandra and Fealey, 2009). However, exploring existing scholarship on Chinese incubators, I find that although the CCP has a strong control of the incubator industry, they do not actively exert much influence over the industry and that the incubator environment in China does not promote much development of popular culture.

In the 1990s, China's Ministry of Science and Technology invested heavily in incubators viewing them as a way to support "...China's transition to a high technology-driven market economy.." (Chandra and Fealey, 2009). Consequently, the government involvement with incubators is relatively high (Scaramuzzi, 2002). Chandra and Fealey write that the government could even be "involved in operational decisions of the incubator" (Chandra and Fealey, 2009). However, Chandra and Fealey also wrote that in China, the "...government involvement negatively impacted the incubators' market orientation and entrepreneurial proclivity, as well as their financial service intensity" (Chandra and Fealey, 2009).

The CCP providing a wide range of incentives, from High Tech Enterprise Zones to SOE and University funded incubators (Harwit, 2002), shows that the party values, and is able to influence, the popular culture in China. However, Harwit argues that this close relationship stunts innovation due to a lack of profit incentive and high risk aversion (Harwit, 2002). It seems plausible that stunted innovation will negatively affect the ebb and flow of popular culture. China's relatively new, and therefore smaller, capital markets result in entrepreneurs having little incentive to take risks for profit with the goal of an IPO or acquisition in mind. This, and the agency issues between incubators and the government may prevent the CCP from exerting much

influence over the development of popular culture despite its strong control of the incubator industry.

### **State-Owned Enterprises as a Form of State Investment:**

State-owned enterprises (SOEs) account for approximately 10 percent of global gross domestic product (Bruton, Peng, Ahlstrom, Stan, Xu, 2015). Consequently, there is an excess amount of literature attempting to define SOEs' ownership structures, determine their efficiency in economic terms, and study their profitability. This paper will explore the nature of SOEs and their relationship with popular culture. I find that due to their nuanced nature, only some SOEs contribute to the development of popular culture in China and that the government's main priority with SOEs is not related to regulation of party ideals.

The existing scholarship on Chinese SOEs has defined three variations: wholly owned enterprises by the state, majority owned enterprises by the state, and minority owned enterprises (Ran, 2014). However, occasionally there seems to be some disagreement in the literature on whether SOEs include any enterprise controlled by the state, or only corporations fully owned by the state. In this paper, SOEs will refer to any corporation controlled by the state.

SOEs can be further classified by their functions (Ministry of Finance of the People's Republic of China, 2013). These classifications include "*Yangqi*", or central enterprises, financial institutions, and social service organizations. Figure 1 depicts these classifications and their respective overseers. "*Yangqi*" consist mainly of enterprises that are capital intensive and fall into natural monopolies, such as gas, coal, telecommunications, industrials etc. (Ran, 2014).

As seen in Figure 1, the State Asset Supervision and Administration Commission (SASAC), oversees the "*Yangqi*" corporations. SASAC's mandate is to "protect and increase the

value of state-owned assets” (Naughton, 2006). This, paired with the fact that SASAC is not a traditional government body (Naughton, 2006) results in a somewhat cumbersome oversight of “*Yangqi*” as SASAC’s mandate does not grant it total power over its respective enterprises.

Additionally, the ownership structure of SOEs impedes some of their abilities to impact on popular culture. “*Yangqi*” which tend to be wholly owned by the state (Ran, 2014), typically own several holding companies, which in turn may hold several hundred subsidiaries (Naughton, 2006). This complicates the SASAC’s oversight power over some of the largest and most impactful SOEs.

There is also much discussion on the efficiency of SOEs. Figure 2 shows the lackluster returns Chinese SOEs give to investors relative to private companies as well as their shrinking assets, most likely enabled by a lack of competition. Amir Guluzade writes that this may be due to SOEs “....abusing their preferential access to loans, and for lobbying for regulations which drive out competitive private companies” (Guluzade, 2019). On the topic of the health of SOEs, it is important to note that there is a range of SOEs from extremely profitable and vice versa (Warner, 2001). For example, Zhang Xiaoming writes that 69 percent of social service organizations under the direction of the Ministry of Culture rely directly on government funds (Xiaoming, 2006).

The SOEs that have the greatest potential to influence popular culture fall into the social service organization category, unlike the “*Yangqi*” which typically consist of industrial and utility companies. These enterprises consist of companies in the tobacco, radio, television, and transportation industries (Ran, 2014). These are industries that people interact with frequently, and therefore they can be very impactful in the development of popular culture. Unfortunately,

there is little scholarship and insight into these companies. This lack of literature may suggest that the social service organization category of SOEs is a lesser focus of CCP investments.

Although there are some Chinese SOEs with high potential to influence popular culture, in general, the categorical and inefficient nature of SOEs inhibit the CCP and other regulatory agencies' ability to influence popular culture in China through investments.

### **Zhongxing Telecommunication Equipment Corporation and Chinese Film Group Case Studies:**

Zhongxing Telecommunication Equipment Corporation (ZTE) is a leading telecommunications corporation headquartered in Shenzhen. ZTE is one of the most well known of China's SOEs and plays a large role in both the economy in China and the greater global economy. Through its sizable consumer base, ZTE is able to influence the development of popular culture through its products. This case study will include a brief description of ZTE's history as well as its corporate governance.

In 1985, the chief technology officer of a military SOE, Hong Weigui, was selected to find partners to form a new enterprise in the Shenzhen Special Economic Zone (Ran and Kee Cheok, 2016). Consequently Shenzhen Zhongxing Semiconductor Co. Ltd was founded with a Hong Kong company and two other SOEs as partners. Eventually, several employees from Shenzhen Zhongxing Semiconductor formed Zhongxing Weixiantong Equipment Co Ltd. which merged with two of the original invested SOEs to form ZTE Holdings, 51% of which was owned by the two aforementioned SOEs. As ZTE Holdings grew it incorporated a company, known as

ZTE Corporation, which would eventually become publicly listed and gain several government recognition and incentives (Ran and Kee Cheok, 2016).

ZTE Corporation is classified as a state holding enterprise, meaning that the government maintains control of the company with only a minority ownership stake. It does this through a complex corporate governance structure. ZTE Holdings, which is a majority owned SOE, is the largest shareholder of ZTE Corporation. This means ZTE Holdings has full control of ZTE Corporation. Furthermore, ZTE Holdings' board is comprised of five employees total from the original two investing SOEs as well as four employees from Zhongxing Weixiantong Equipment Co. Ltd. which was incorporated from ZTE Holdings at an early stage and is comprised of employees of the state (Ran and Kee Cheok, 2016). ZTE Corporation's complex ownership structure allows the government to maintain significant control over the company's decisions despite the fact that ZTE Corporation is traded publicly.

While the influence of the CCP over ZTE Corporation has been established, the extent to which the CCP enforces direct influence on ZTE's business practices remains to be seen. Therefore, it is difficult to assess the impact of the investment in ZTE, however, it is difficult to deny the role the state's investment played in the creation of ZTE, a company with a large impact on Chinese popular culture and everyday life.

China Film Group Corporation (CFG) was founded in 1951 as China Film Management Corporation (Yeh and Davis, 2008). Over several decades, it evolved into "the most comprehensive and extensive state-owned film enterprise in China with the most complete industry chain that facilitates film production, distribution and exhibition as a coordinated process and integrates film, TV and video into one single entity" (Yeh and Davis, 2008). CFG



falls under the classification of social service organization of SOEs. As mentioned above, SOEs in this category tend to have the highest interaction with consumers and are likely to have the greatest potential to influence popular culture. As a result, highlighting the distinctions between ZTE, a strategic SOE, and CFG will benefit the reader and stress the consequences of CCP asset allocations in across various SOEs.

Before the economic reforms of 1978, CFG's mandate was to acquire films produced by state-owned studios, import party ideology appropriate films, and to export films abroad (Yeh and Davis, 2008). Additionally, CFG was tasked with the sales and distribution of films. Over the years, CFG's role has shifted in two notable ways. First, under the Ministry of Radio, Film, and Television it was allowed to import 10 films from Hollywood a year after a slump in the film industry (Yeh and Davis, 2008). Second, it moved under the control of the State Administration of Radio, Film and Television (SARFT) marking a shift to the open markets (Yeh and Davis, 2008), that resulted in a consolidation of the film industry in China and a "mega-media entity" with several subsidiaries across both media and non-media related industries (Yeh and Davis, 2008).

To observe the impact of the CCP's investment in CFG on popular culture in China we would need to see if we could observe any changes or effects in popular culture caused by any the CFG's films or subsidiaries' products. As this is difficult to discern, it is useful to note the CCP's allocation of resources instead. Profits from SASAC supervised "*Yangqi*" were 1,200 Bn yuan in 2013, while the profits of the SARFT supervised SOEs were 2.48 Bn yuan (Ministry of Finance of the People's Republic of China, 2013), implying that the state allocates more assets to central enterprises than social service organizations. I believe that this is indicative of the CCP's

inclination to control popular culture in ways other than SOEs, due to several other more effective alternatives.

### **Conclusion:**

The issue of asset allocation by the government and development of Chinese popular culture is complex. Examining the Chinese government's investment in SOEs and incubators has shed some light on the consequences of these investments and the complex landscape of SOEs. Additionally, observing Chinese incubators has shown that they struggle with several issues such as agency issues and underdeveloped capital markets that make it more difficult for the government's investment in incubators to be impactful. However, case studies of ZTE and CFG have shown that the government *can* use capital allocation to develop systems of strong influence over Chinese popular culture. Yet, despite this, the government appears to allocate most of its assets into “*Yangqi*”, which seem to have less of an impact on popular culture development. Instead of using investment to influence popular culture, it seems that the government prefers to use various forms of power that we have covered in class, such as internet censorship (Chung, 2011) or newspaper censorship and propaganda (Stockmann, 2013) to exert its influence over popular culture, due to the nature of SOEs and Chinese incubators.

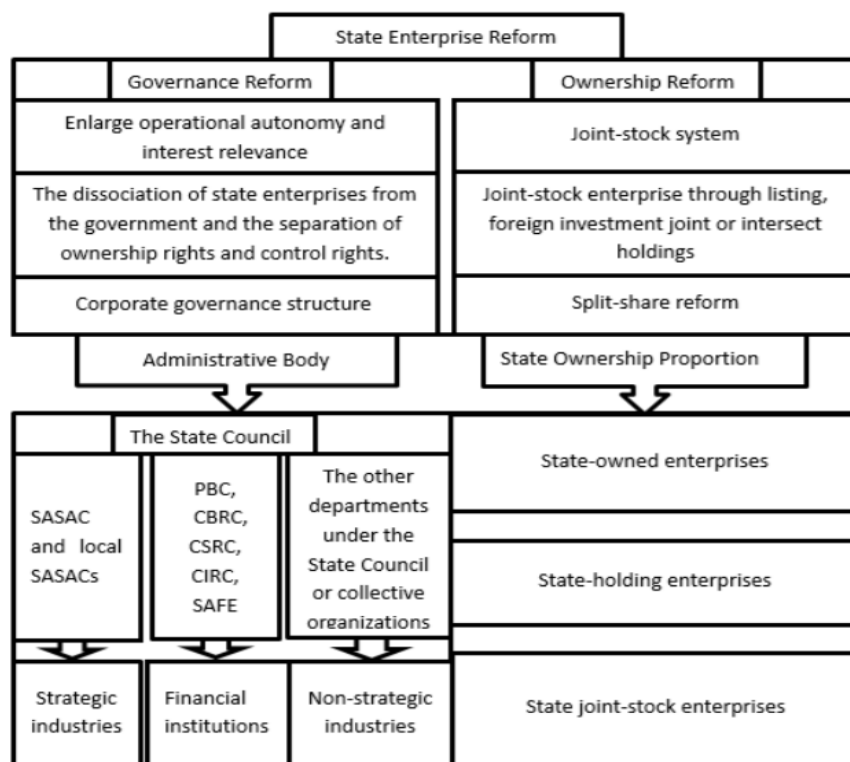


Figure 1  
Source: OECD

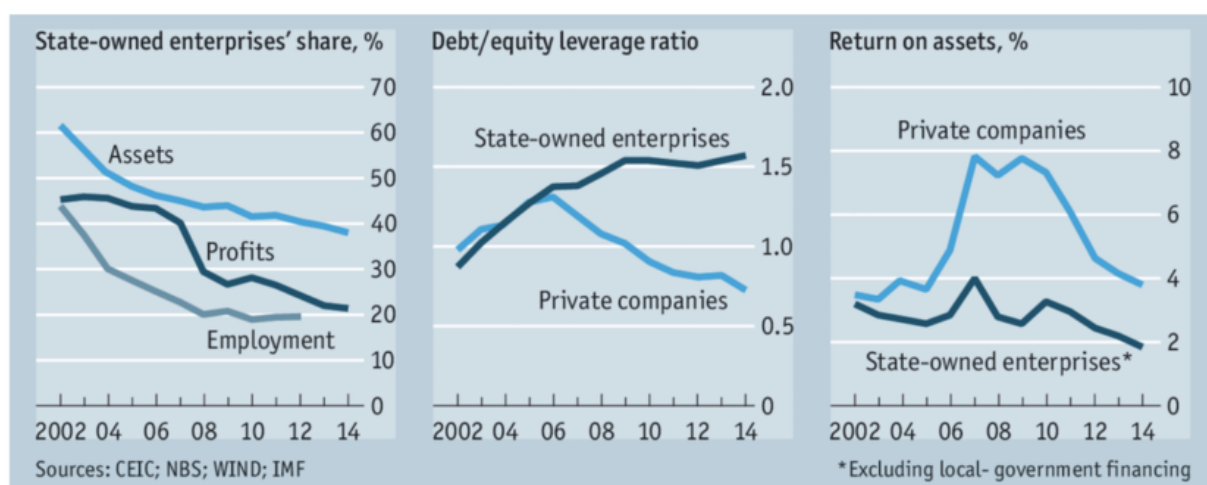


Figure 2  
Source: World Economic Forum

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