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State-Run Firms Are the Giants of China's Economy

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China's state-owned companies account for about 45% of the country's rapidly expanding economy, according to a report for the U.S.-China Economic and Security Commission.

Before China started opening its economy in the 1970s, all firms were in the hands of the government. That percentage is declining, but the firms are still expected to have immense influence for years to come.

"The state sector will continue to play an important role in China," the August 2011 report said. The Chinese communist party isn't interested in the country "becoming a bastion of free market enterprise" and wants to control strategic industries such as finance, energy and power, according to the report, written by Andrew Szamosszegi, Cole Kyle and Charles Anderson.

State-owned firms, the report finds, help Beijing pursue a buy-China procurement strategy, which sometimes excludes foreign firms from important development projects or requires them to hand over important technology. Those practices are helping China build an aviation industry capable of competing with Boeing Co. and Airbus, the report says.

As China's economy has boomed over the past several decades, its state enterprises have gained growing clout internationally as well. The country claimed 61 of the companies on Fortune's Global 500 list in 2011—almost all of them state-owned—up from 20 in 2006.

Industrial & Commercial Bank of China Ltd., the biggest of the five state banks that control much of the financial industry's assets, has steadily expanded its overseas operations in the U.S. and other countries.

China Petrochemical Corp., known as Sinopec Group, which reported revenue of $313 billion in 2010, is the largest of three state companies that control drilling, refining and distribution of oil and gas in China. The companies are increasingly central players in the energy business abroad in places like Iraq.

Another trio of government companies controls effectively all of China's telecommunications industry. The biggest, China Mobile Communications Corp., claims more than 655 million wireless subscribers, by far the largest in the world.

The Obama administration has been looking at levers to try to change the behavior of China's state-owned firms, which it believes are able to compete unfairly internationally. It has used negotiations over a proposed trade pact, called the Trans-Pacific Partnership, to try to craft rules that would require state-owned firms to act on a commercial basis when they sell goods and services and not discriminate against firms from other countries.

China isn't a member of the negotiating group, which seeks to create essentially a free-trade pact among the U.S. and several other Pacific Rim countries.

A final deal is still probably several years from completion, but the U.S. wants the deal to become a template for future trade pacts. The parties also hope China would want to become a member or that the pact's standards would become international norms and influence Chinese behavior.

In Beijing, opinion pieces in state-owned papers have veered between seeing the pact as part of plan to encircle and constrain China or expressing an interest in joining a trans-Pacific deal.

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