

Promoting high-quality development of state-owned enterprises with new quality productive forces

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Background

In July 2024, the Third Plenary Session of the 20th CPC Central Committee pointed out the direction for the new era of Chinese modernization from a holistic and strategic perspective, in which the latest requirements on the new quality productive forces and state-owned capital will be an important index for local state-owned enterprises (SOEs) to time out their strategic plans for the next five years. Through studying and understanding the original text, EY team deems that the meaning of the development requirements of the new quality productive forces for the guidance of state-owned capital can be summarized as follows:



Leveraging the advantages of the system to enhance total factor productivity and achieve high-quality development and technological autonomy and self-improvement.



- ▶ New quality productive forces: “Improve the institutional mechanism for the development of new quality productive forces in accordance with local conditions. Promote revolutionary technological breakthroughs, innovative allocation of production factors and in-depth transformation and upgrading of industries ...”
“Improve the relevant regulations and policies, accelerate the formation of production relations that are more compatible with the new quality productive forces and promote the agglomeration of all types of advanced factors of production into the development of the new quality productive forces, thereby substantially increasing total factor productivity.”
- ▶ State-owned capital: “Promote the optimization of the scheme and structural adjustment of the state-owned economy and forward the expansion of state-owned capital and SOEs, so as to upgrade their core functions and improve their core competitiveness.” “Make state-owned capital bigger, stronger and concentrate it in major industries and key areas of national security and the lifeblood of the national economy, in public services, emergency response capacity and public welfare and in forward-looking emerging industries.”

Selected excerpts on new quality productive forces and deepening SOE reforms in the Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization.

Before the launch of the 15th Five-Year Plan, especially following the trend of global regionalization of global industrial development, local SOEs, as the driving force for the high-quality development of the regional economy, will encounter a new challenge of how to carry out deepening the reform around new quality productive forces.

EY Greater China Region, in its many years of service to local construction, deeply understands the urgent requirements of local governments to develop their economies, gather technology innovation resources and raise the efficiency of state-owned capital. At this stage, referring to the experiences of various regions, EY teams proposed initial thoughts on how to lead the development of enterprises and the local economy through the plan of the new quality productive forces of the local SOEs, in the light of three perspectives of expanding the essence, assisting the industry and giving full play to their strengths.

Firstly, expand the scope of essence of new quality productive forces.

Innovation is the essence of new productive forces, local SOEs should play a leading role in innovation, to set promoting the technological revolution, the innovative allocation of production factors, industrial transformation and upgrading as the goal, to build a high-quality development model. In addition to technological innovation, it is also necessary to achieve “three innovations”:

- ▶ Innovate governance structure. Taking the motivation of personnel as the starting point, adjusting the established organizational framework and management system according to local conditions and establishing production relations compatible with the new quality productive forces.
- ▶ Innovate asset scheme. Focusing on the main responsibilities and main business and the priorities in new quality productive forces scheme, it is supposed to optimize the asset structure, including the reconstruction of assets by means of “transferring, merging and exiting”, to seek the “pareto-optimal” operating efficiency of the business.
- ▶ Innovate business synergy. Breaking down barriers to business development, expanding as a driver of leading SOEs in certain industries, empowering small and medium-sized enterprises in the industry chain and creating regional “original ecosystem” startup clusters.

Secondly, help emerging industries cluster and industrial transformation and upgrading.

Currently, countries around the world are competing in diversified emerging technologies, promoting the fourth industrial revolution and guiding socio-economic upgrading by supporting cutting-edge companies, building new infrastructures and emphasizing the value of data elements. China has already laid out the new track of “seven strategic emerging industries and six future industries” in advance and guided state-owned capital to enter the cyclical feedback waiting for industrial dividends. In this regard, it is suggested that local SOEs start from three actions to help local industrial agglomeration and upgrading:

- ▶ Action one - mastering the logic of industry. Explore the characteristics of emerging industries and future industrial development in advance. Plan first and familiarize with the logic of industrial development. Especially, in China’s gradual transformation progress from industrial pursuer to certain industrial leader, refer to international industrial gaps and frontiers and actively participate in the establishment of new international industrial standards.
- ▶ Action two - pioneering arrangement of resources. Leverage local resource endowment, highlight industrial signature, seize the first opportunity in a certain niche area and arrange infrastructure facilities and basic resources in advance for the regional economy to participate in future globalization competition.
- ▶ Action three - industries have progress and regress. Unite non-public economic resources, accelerate the pace of mixing and reforming gradually withdraw from competition, give full play to the flexible mechanism of the non-public economy, the priority of efficiency features to promote industrial transformation in industries suitable for the non-public economy; audaciously enter the field of market failure, undertake more public business, to reduce the impact of negative externalities on the efficiency of resource allocation.

Thirdly, give full play to institutional advantages, leverage and long-term value.

SOEs are an important part of the national technological forces, in the process of developing new quality productive forces, to highlight the strategic orientation, unlock the intrinsic, long-term value of the mission, serving and technological self-reliance and self-improvement. Local SOEs should be targeted:

- ▶ On the one hand, grasp the new trend of centralized distribution system. Deeply understand a whole new avenue of state support for local governments in the context of the ultra-long-term national debt. Be brave to enter the national security, the lifeblood of the national economy of the major industries and key areas to carry out long-term plan. At the same time, join hands with various financial institutions to transform stock resources into controllable capital through leverage.
- ▶ On the other hand, educate local patient capital community. Use professional teams to tell “regional stories”, join hands with various capitals to participate in regional industrial mergers and acquisitions (M&A) and reorganization. Jointly form investors willing to focus on future excess returns, balance the interests of all parties involved by exploring methods for investment returns, cultivate the industry infants and retain future expectations.

Local governments provide policy support for M&A and reorganization of technology innovation industries:

In July 2024, Shanghai government issued the Implementation Opinions on Further Utilizing the Role of Capital Markets to Promote the High-Quality Development of Technology and Innovation Enterprises in the City, which supports the high-quality development of listed companies and encourages various types of capital to carry out industrial M&A and restructuring. The key points included are:

- ▶ Encourage leading listed companies to base on their main business and increase resource integration of related to enterprises industry chain through absorption and merger, holding or equity participation.
- ▶ Encourage financial institutions to provide financial products such as M&A loans, M&A insurance and M&A bonds for M&A reorganization and subsequent operations.
- ▶ Promote innovative pilot projects of M&A loans for non-residents and study innovative pilot projects of equity participation M&A loans for technology-based enterprises.
- ▶ Encourage listed companies to merge and acquire high-quality assets abroad and provide facilitation in terms of capital exiting and cross-border share exchange.

Shanghai harnesses the strengths of financial center, with the goal of building an investor protection system and more efficient resource allocation, focusing on promoting the investment value of listed companies, patient capital taking shape, intermediaries practice standardizing, forming a number of leading investment banks and institutions with core competencies and market presence, building a set of healthy and standardized capital market ecosystem and comprehensively helping the general blueprint of technological innovation.

Conclusion

At the time of the launch of the 15th Five-Year Plan, EY Greater China teams will continue to give full play to its international vision and professional think-tank advantages and work together with local SOEs at all levels to review their own strengths and weaknesses, further implement their strategic planning blueprints and reshape their core competitiveness, so as to stand out in the requirements of the new era of new quality productive forces and arrangement of state-owned capital.

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