

The Problems and Optimization Paths of China's State Owned Capital Budget

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Opinion

In 2022, the aggregated assets of China's State-Owned Enterprises (SOEs) reached a substantial sum of 339.5 trillion yuan, the total assets of financial enterprises amounted to 400.9 trillion yuan. Additionally, the total assets of administrative state-owned assets was recorded at 59.8 trillion yuan. The total assets across three sectors reached 800 trillion yuan, which is a huge national financial resource for China.

The main problems in the current state-owned capital budget in China

While the scale of China's state-owned capital budget has been progressively enlarged in recent years, some challenges persist within Chinese state-owned capital budgeting framework.

1. The proportion of state-owned capital income used to remit to the state is relatively low. Data from 2022 indicate that the proportion of post-tax profits remitted by state-owned wholly enterprises has not reached 30%, with the highest being only 25% in the tobacco industry, 20% in industries such as petroleum, petrochemicals, electricity, and coal, 15% in industries such as steel and machinery, etc. Meanwhile, some other policy-oriented enterprises are exempt from remitting profits.

2. The structure of revenue for the state capital budget is notably simplistic and imbalanced, predominantly reliant on profit as its primary income. In 2022, the final accounts of central government's capital budget revenue amounted to 234.331 billion yuan, with a profit income of 174.464 billion yuan, accounting for 74.5%, Other budget income such as dividends, interest, and so on, collectively accounted for approximately 25% of the overall revenue. The situation is basically the same from the perspective of local government's capital budgets. In 2021, the revenue of local government's capital budget was 222.666 billion yuan, with a profit income of 154.72 billion yuan (accounting for 69.5% of the total), dividend income was 35.613 billion yuan (accounting for 16% of the total), property rights transfer income was 48.533 billion yuan (accounting for 21.8% of the total).

3. The expenditure allocation of state-owned capital budget is irrational, with direct expenditures on people's livelihood remaining insufficient. In 2022, the central government's capital budgetary expenditure amounted to 166.102 billion yuan, with specific allocations of 10 billion yuan for social security fund supplementation, 115 million yuan for public welfare facilities, 2.024 billion yuan for ecological and environmental protection, 215 million yuan for supporting scientific and technological progress, and 2.386 billion yuan for safeguarding economic security. Furthermore, a significant portion of some local government's capital budget expenditures will be allocated to the remuneration of chief financial officers, full-time supervisors, and outside directors.

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4. The accuracy of the state-owned capital budget is considered low, with significant deviations between budgeted and final accounts. In 2021, the deviation between budgeted and final accounts in local state-owned capital's profit income was 44.7%. Among them, the profit revenue budget of petrochemical enterprises is 0.06 million yuan, and the final accounting is 5.075 billion yuan, with the largest deviation from the budget and final accounts. Deviations were also significant in the non-ferrous metallurgy and mining (211.8%), steel (135.5%) and investment service enterprises (135.9%) industries.

5. The growth rate of capital budget revenue of central government lags behind that of local government. Local government's capital budget revenue grew from 61.3 billion yuan in 2014 to 334.529 billion yuan in 2022, more than quadrupling, demonstrating a relatively rapid upward trajectory. In contrast, central government's capital budget revenue exhibited instability, declining from 142.6 billion yuan in 2014 to 124.4 billion yuan in 2017 before rebounding to 234.331 billion yuan in 2022. The growth of capital budget revenue of central government fell short of doubling, significantly lower than that of local government.

6. The state-owned capital budget lacks comprehensive coverage. The "Guiding Opinions on Deepening the Reform of State-owned Enterprises in 2015" by the CPC Central Committee and the State Council advocates for centralized and unified supervision of state-owned assets, with eligible entities transitioning to state-owned capital investment and operation companies. It also emphasizes the need for a hierarchical budget management system for all state-owned enterprises. However, as of now, the state-owned capital of enterprises affiliated with central government organs and institutions, as well as financial enterprises, has not been incorporated into budget management, and the budgeting of state-owned capital of some county governments has not commenced.

Paths for optimizing China's state-owned capital budget system

1. Optimize the revenue and expenditure structure of state-owned capital budget. In terms of revenue, On the one hand, it is necessary to give priority to profits and maintain stable growth of profits. At the same time, to strengthen the management of other property rights transfer income, dividend income and liquidation income. In terms of expenditures. In terms of expenditure, the government should further increase social security transfer expenditure and ecological infrastructure expenditure, further optimize spending on injecting state capital and increase spending to support people's livelihood and the development of strategic industries, appropriately increase expenditures for the reform and development of state-owned enterprises.

2. Further increase the proportion of state capital gains turned over to treasury. The proportion of state capital gains paid to treasury by state-owned enterprises was only 5% for

many years before it was increased to 30% in 2020. From the perspective of the central state-owned capital budget in 2022, the tobacco industry was only 25% at the highest. In the future, the proportion should be gradually increased to 50% to 80% to strengthen the public financial budget.

3. Expand the management scope of state-owned capital budget. Firstly, check and register all state-owned assets and capitals of sole proprietorship, joint venture cooperation, joint stock company in different ways, and incorporate them into the management of the state-owned capital budget. Secondly, the state-owned assets and capital owned by various administrative institutions shall be comprehensively checked and registered and incorporated into the state-owned capital operation budget.

4. Clarify the distinctive role of the state-owned capital budget and fully play its dual functions of developing the economy and ensuring people's well-being. In accordance with the overall strategy of national economic development, the governments should clarify the investment priorities and directions of state capital expenditure at all levels, The state-owned capital budgets will be fully leveraged to play a pivotal role in driving scientific and technological innovation as well as promoting ecological and environmental development. Simultaneously, it is important to avoid redundancy with public welfare investment expenditure projects in the general public budget and optimize the return on state-owned capital.

5. The management of budgetary revenue and expenditure for state capital will be enhanced, with a focus on strengthening performance evaluation and improving fund efficiency. In terms of revenue, all types of income should be included in the budget management of departments or units, adhering to the principle of establishing a budget prior to expenditure, and no expenses should be arranged without a corresponding budget. All departments and units shall enhance the oversight of non-financial appropriation income within their subordinate units, strictly prohibiting unauthorized establishment of non-budgetary accounts, and accurately reporting non-financial appropriation income. In terms of expenditure, the budget allocation for state-owned capitals at all levels should adhere to the principle of fiscal prudence, by rationalizing budgetary expenditures based on the actual needs of both core and ancillary business activities within enterprises.

This includes strengthening feasibility assessments for project investments and effectively managing project performance targets, while ensuring fund disbursements are strictly aligned with project schedules. Governments should establish multi-level and diversified expenditure performance evaluation standards and systems, and reasonably determine the index weights of different goals including economic benefit, social benefit and ecological benefit, and manage the whole process of state capital budgeting, implementation and adjustment, and final accounts.