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State-Owned Enterprises and Private Equity in the Context of Economic Development

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Introduction

State-Owned Enterprises (SOEs) occupy a unique position in the global economy, bridging public policy objectives with private sector investment. Operating at the intersection of government interests and market competition, SOEs contribute significantly to economic stability, strategic investment and national interests in many countries.

This paper therefore explores the relative significance of SOEs within the context of global public and privately owned companies with a particular focus on China, where SOEs play a central role in economic development, innovation, and environmental sustainability.

Notably, non-publicly traded companies represent approximately one-third of global corporate value, significantly contributing to both low carbon investment and overall economic development. Private equity is also increasingly influential in these areas, with further progress needed to address remaining global gaps in low carbon and impact investment[1].

[1] https://sfini.org/future-of-pe-series

Global Corporations and Relative Value

Companies vary in structure and size. They can be wholly owned by external investors such as financial institutions, which own up to 80% of S&P 500 companies[2]. Alternatively, ownership may reside with a single controlling parent, whether it is a private equity firm like Blackstone, the largest such institution globally, or a State-Owned Enterprise, commonly found in China.

Furthermore, companies may range from being partially to predominantly owned by governments or other entities such as affluent families, with only a minority of shares (if any) publicly traded. Therefore, it is crucial to contextualize the value of global corporations, considering their diverse ownership and structural arrangements.

Public Equity

Publicly traded companies play a critical role in the global economy, representing substantial market value as well as accessible investment opportunity. Recent data shows the total market capitalization of the U.S. stock market at approximately US$55.2 trillion, accounting for over half of the value of global public equity, valued recently at just over US$100 trillion[3][4]. This global figure is up from US$65 trillion as of 2015, and with US markets having doubled in value the past ten years[5], US public companies and their

[2] https://www.pionline.com/article/20170425/INTERACTIVE/170429926/80-of-equity-market-cap-held-by-institutions#:~:text=Institutions%20own%20about%2078%25%20of%20the%20market%20value,of%20the%20companies%20in%20the%20S%26P%20Euro%20index.
[3] https://siblisresearch.com/data/us-stock-market-value/#:~:text=The%20total%20market%20capitalization%20of,(July%201st%2C%202024).
[4] https://www.world-exchanges.org/
[5] https://siblisresearch.com/data/us-stock-market-value/#:~:text=The%20total%20market%20capitalization%20of%20the%20U.S.%20stock,Market%20%28read%20more%20about%20OTC%20markets%20from%20here.%29

investors have as a result been the primary beneficiary of the majority of equity financial gains during this period. Looking back a bit further, this US$65 trillion figure was roughly the same just before the Global Financial Crisis of 2008, when US company value then declined by roughly half during the playing out of that Crisis, before recovering more than fully, highlighting both the potential vulnerability as well as the scale and importance of publicly traded companies for investment returns during periods with varying market conditions.

Private Equity

While public companies dominate global market value, private equity (PE) has also emerged as a rapidly growing asset class. Over the past two decades, assets under management in PE have quadrupled, rising from $2.2 trillion in 2000 to $8.5 trillion by June 2023[6]. This increase underscores private equity's growing influence and appeal to investors seeking alternative investment opportunities outside of public markets. Such markets are also less liquid than public equity as an asset class, and the necessity to "mark to market" during challenging periods is another risk to manage for. Private markets are pretty much only accessible by wealthy investors and professional financial institutions making them less accessible to the general global investment public.

[6] https://www.morganstanley.com/im/en-us/capital-seeker/about-us/news-and-insights/articles/introduction-to-private-equity-basics.html#:~:text=Among%20these%20asset%20classes%2C%20private%20equity%20is%20one,2000%20to%20%248.5%20trillion%20as%20of%20June%202023.1

State-Owned Enterprises (SOEs)

State-Owned Enterprises (SOEs) have seen significant growth, both in their presence among the largest global companies and as a share of market capitalization. The number of SOEs in the Fortune Global 500 has nearly tripled in recent times, increasing from 34 in 2000 to 126 in 2023[7]. Today, SOEs account for about 12% of global market capitalization, indicating their expanding economic influence and growing importance in certain sectors.

The World Bank reports that SOE assets were valued at around $45 trillion in 2018, significantly increasing from $13 trillion in 2000[8]. This substantial growth reflects SOEs prominence in sectors critical to national interest categories such as energy, infrastructure, extractive industries, and finance, whereby they often provide essential public goods and services. These strategic roles highlight the unique position of SOEs in addressing economic objectives and public sector needs in countries where they play a significant role. State owned organizations are also more egalitarian than PE, as they are in effect owned by the citizens of the country in question. An example is Norges Bank Investment Management (NBIM) overseeing as it does over US$1.7 trillion in investments, the largest single investor in the world, representing oil revenue gathered by Norway over time on behalf of its over 5 million citizens[9].

Overlap and Comparative Analysis

In 2023, State-Owned Enterprises held over 25% ownership in approximately 2,037 public companies worldwide[10]. However, the influence of SOEs varies significantly by region. For example, in OECD

[7] https://www.oecd.org/en/topics/sub-issues/corporate-governance-of-state-owned-enterprises.html
[8] https://www.oecd.org/en/topics/sub-issues/corporate-governance-of-state-owned-enterprises.html
[9] https://www.econstor.eu/bitstream/10419/281279/1/Oxford-University-Press_9780191982545.pdf
[10] https://www.oecd.org/en/topics/sub-issues/corporate-governance-of-state-owned-enterprises.html

countries, the market capitalization of public companies with over 25% SOE ownership is approximately 2%[11]. In contrast, Latin America and Asia see much higher shares, with SOE ownership reaching 16% and, in some markets, up to 50%[12].

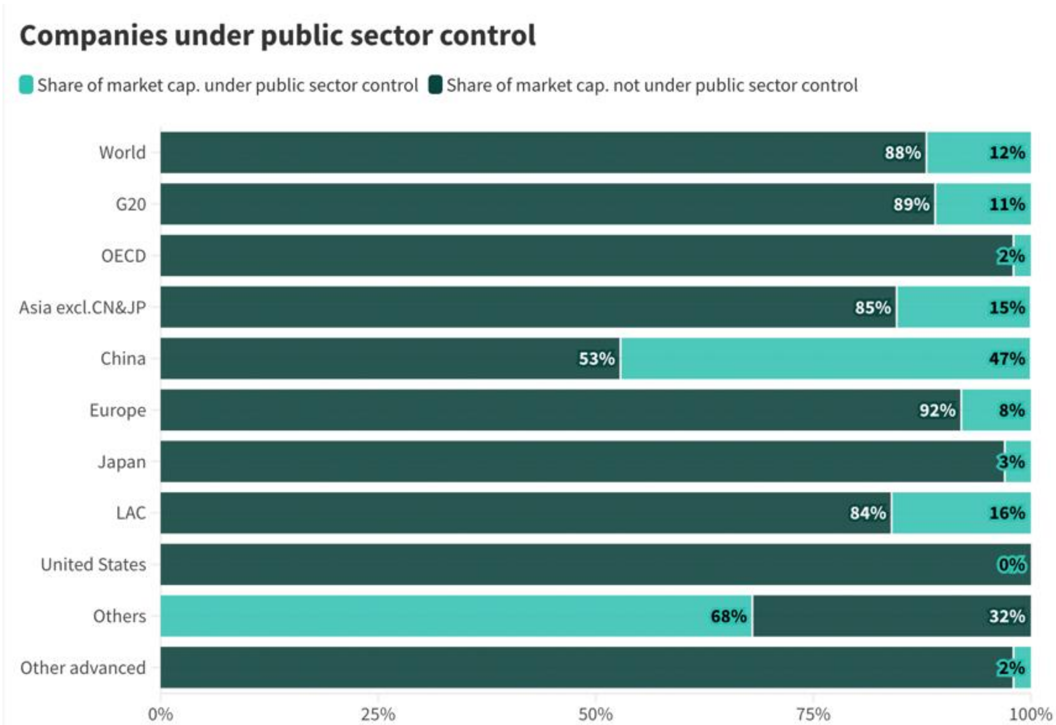

Figure 1: Companies under public sector control. Source: OECD, Ownership and Governance of State-Owned Enterprises 2024[13]

To estimate global corporate value, therefore, which includes publicly owned companies, private equity and SOEs, we arrive at an approximate total of $150 trillion, whereby roughly 2/3 are publicly traded and 1/3 privately owned, with the majority of this 1/3 being represented by SOEs.

[11] https://www.oecd.org/en/topics/sub-issues/corporate-governance-of-state-owned-enterprises.html
[12] https://www.oecd.org/en/topics/sub-issues/corporate-governance-of-state-owned-enterprises.html
[13] https://www.oecd.org/en/topics/sub-issues/corporate-governance-of-state-owned-enterprises.html

However, this figure is not a simple sum of the three categories. Adjustments are necessary to account for overlaps, as some SOEs are both publicly traded and receive and make private equity investments themselves. Notably, about 12% of public companies are under SOE control, indicating a significant overlap between public companies and SOEs. Determining the exact overlap between SOEs and private equity is more challenging, as private equity investments in SOEs or SOEs' investments in private equities are not always disclosed, particularly in countries where state assets are tightly controlled. Given these overlaps, the final calculation reflects the complex interactions among SOEs, private equity, and public companies, rather than a straightforward aggregation.

SOEs in Public Companies: Balancing Market Influence with State Control

Publicly listed SOEs occupy a unique position among public companies by combining state control with access to market capital. This dual structure enables SOEs to fulfill government objectives while benefiting from private investment. In industries like energy and finance, SOEs leverage government support to maintain market dominance, influencing competitive dynamics. As publicly traded entities, they are also subject to rigorous standards for transparency, particularly in ESG practices, which enhances their appeal to investors. Additionally, public listings facilitate cross-border investment and partnerships, extending SOEs' strategic influence globally.

SOEs in Private Equity: Strategic Partnerships and Market Impact

SOEs represent unique opportunities within the private equity landscape. Private equity firms are known to pursue relationships with SOEs, aligning investments with potential for profitability and national development goals. Partnerships and joint ventures between SOEs and private equity firms are common, especially in sectors like energy and infrastructure, where private equity capital and management expertise support SOE modernization. These collaborations contribute to sector growth and economic development, while also presenting private equity firms with high-value exit opportunities, although often with longer holding periods due to regulatory complexity.

China as a Case Study: SOEs in the World's Second-Largest Economy

Public Companies in China

China's stock market plays a significant role in its economy, with market capitalization projected to reach USD 19 trillion in 2024[14]. The market capitalization of China's listed domestic companies is equivalent to 64.1% of the country's GDP in 2022. This strong market presence highlights the importance of public ownership in China's economic landscape, which dominates Chinese stock exchanges.

Private Equity in China

Private equity in China has expanded rapidly, marked by extensive partnerships and joint ventures with both national and local SOEs, forming national and local government-linked funds.

Local SOEs frequently collaborate with private investors, often structuring partnerships where either party can act as the GP or LP. In some cases, an SOE may function as the GP with private investors as LPs, while

[14] https://www.statista.com/outlook/fmo/stocks/china#:~:text=The%20market%20capitalization%20in%20the,US%2422.57tn%20in%202024.

in other instances, private funds may take the GP role with the SOE as an LP. This GP-LP dynamic, particularly prevalent with local SOEs, creates a flexible investment framework and represents a foundational aspect of the private equity operating environment in China. This unique structure provides private equity firms and SOEs with access to strategic sectors and resources while supporting government priorities. Compared to other countries, private equity investments in China often involve stronger ties with the SOEs, creating unique opportunities for capital.

As of May 2024, China's private equity sector included 20,860 fund managers overseeing 152,001 funds, with assets under management of USD 2.726 trillion (¥19.89 trillion[15]). According to statistics from the Zero2IPO Research Center[16], in 2023, government agencies/government-funded platforms/government guidance funds collectively accounted for 40.6% of the total committed capital disclosed in newly raised RMB funds, an increase of 1.4% compared to the previous year. This was followed by industrial capital and individual and family funds, which accounted for 26.7% and 10.5%, respectively. From the perspective of the LP composition in newly raised RMB funds, LPs with state-owned backgrounds (including those with state-owned equity participation or control) disclosed total committed capital of approximately RMB 1 trillion, representing 77.8% of the total LP committed capital, a year-on-year increase of 4.6%. Furthermore, as shown in Figure 2, lower-level government guidance funds are more active than higher levels. Municipal-level funds dominate, representing 53% of overall capital commitment. Provincial-level funds account for 25%, while district/county and national levels contribute 21% and 1%, respectively.

15 https://rsmstoneforest.sg/expert-insights/now-china-regulation-on-supervision-and-administration-of-private-investment-funds
16 https://pic.bankofchina.com/bocappd/rareport/202405/P020240520356999693026.pdf

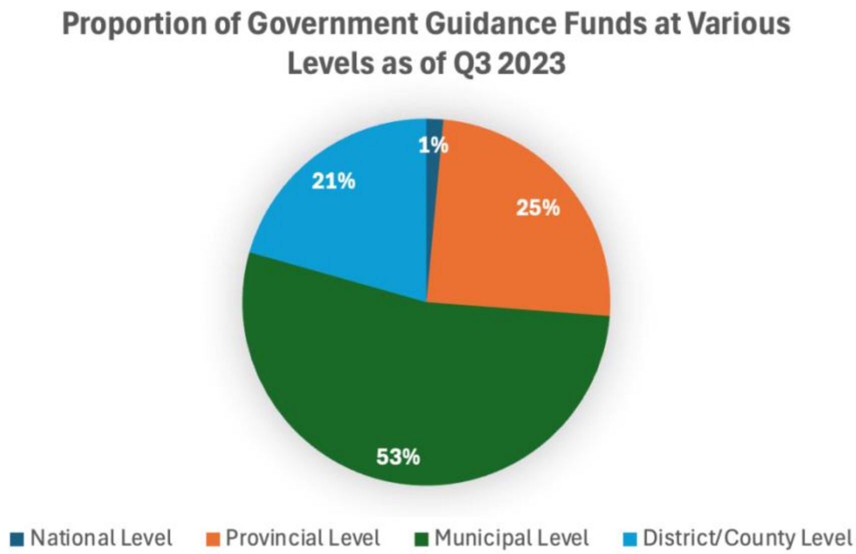

Figure 2: Proportion of Government Guidance Funds at Various Levels as of Q3 2023. Source: Investment Research Data, CVInfo[17]

SOEs in China

China's State-Owned Enterprises (SOEs) play a foundational role in its economy. By 2023, Chinese SOEs contributed 66% of the national GDP, underscoring their economic significance[18]. Globally, Chinese SOEs dominate rankings of the most valuable state-owned companies, with seven of the top 15 SOEs worldwide in 2020 being Chinese, including the top three—ICBC, CCB, and ABC[19]. Additionally, Chinese SOEs have expanded their presence in the Fortune Global 500, growing from nine entries in 2000 to 75 of the 102 SOEs on the list by 2017[20].

[17] https://pic.chinaventure.com.cn/reportFiles/7137700947689472.pdf
[18] https://www.ft.com/content/7c9dcd6c-79dc-48da-9255-c40b15b48af8
[19] https://www.statista.com/statistics/1339182/state-owned-enterprise-most-valuable/
[20] https://www.sciencedirect.com/science/article/pii/S1755309119300437

Chinese SOEs can generally be categorized into two tiers: national-level SOEs and local-level SOEs, which include provincial, municipal, prefectural, township, and village co-ops. While both levels share similarities, they differ in roles and focus. National-level SOEs are closely aligned with the Chinese Communist Party's (CCP) economic agenda and national Five-Year Plans, serving strategic national objectives. In contrast, local-level SOEs often prioritize regional development goals and may issue municipal bonds disguised as SOE-backed debt. These differences underscore the adaptability and range of SOEs within China's economic framework.

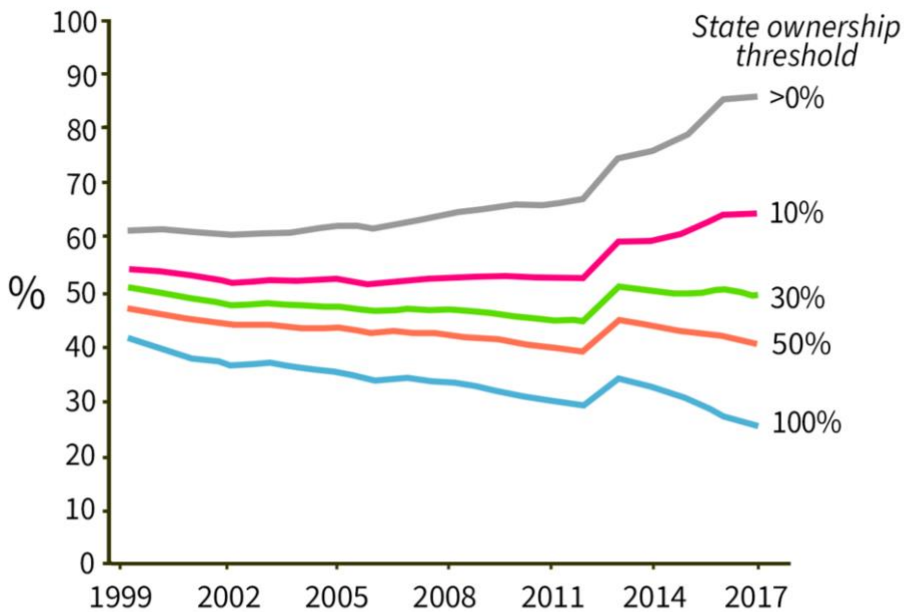

Figure3: Reregistered Capital of Firms with Some State Ownership as Fraction of Total Registered Capital in China's Economy. Source: Center on China's Economy and Institutions, Stanford University[21]

Conventional estimates indicate that China has 391,000 state-owned enterprises (SOEs). However, a more detailed analysis from Stanford applies five different state ownership thresholds to evaluate SOEs across all 40 million registered firms in China. This study reveals 363,000 firms entirely state-owned, 629,000

[21] https://sccei.fsi.stanford.edu/china-briefs/reassessing-role-state-ownership-chinas-economy

firms have at least 30% state ownership, and nearly 867,000 firms possess some degree of state equity. Notably, state capital controlled by the central government declined from 37% in 1999 to 31% in 2017, while provincial government investment increased from 9% to 35% over the same period[22]. This trend indicates that while both central and local governments continue to invest in a growing number of firms, their average shareholdings have diminished, suggesting a shift toward more indirect control through state equity.

A characteristic of Chinese SOEs is their hybrid structure, allowing partial public listing while retaining strong state control. For instance, PetroChina, a publicly listed subsidiary of China National Petroleum Corporation (CNPC), has 80.25% of its shares held by CNPC, leaving only 19.75% publicly traded. This partial listing structure enables Chinese SOEs to access public capital markets while maintaining government oversight. China has also emerged as a preeminent leader in global investment towards the low-carbon transition, not only in absolute monetary terms but also as a percentage of global GDP[23]. In 2023, China accounted for 38% of the nearly US$1.8 trillion invested in this area, with projections indicating that at least two to three times this level of annual investment will be necessary by 2050[24]. Given the anticipated incoming US administration from 2025-2028, China's role as a leader in low-carbon investments is expected to become more significant, with Chinese state-owned enterprises (SOEs) potentially assuming an even more critical role.

[22] https://sccei.fsi.stanford.edu/china-briefs/reassessing-role-state-ownership-chinas-economy
[23] https://about.bnef.com/blog/global-clean-energy-investment-jumps-17-hits-1-8-trillion-in-2023-according-to-bloombergnef-report/
[24] https://www.reuters.com/sustainability/sustainable-finance-reporting/yellen-says-3-trillion-needed-annually-climate-financing-far-more-than-current-2024-07-27/

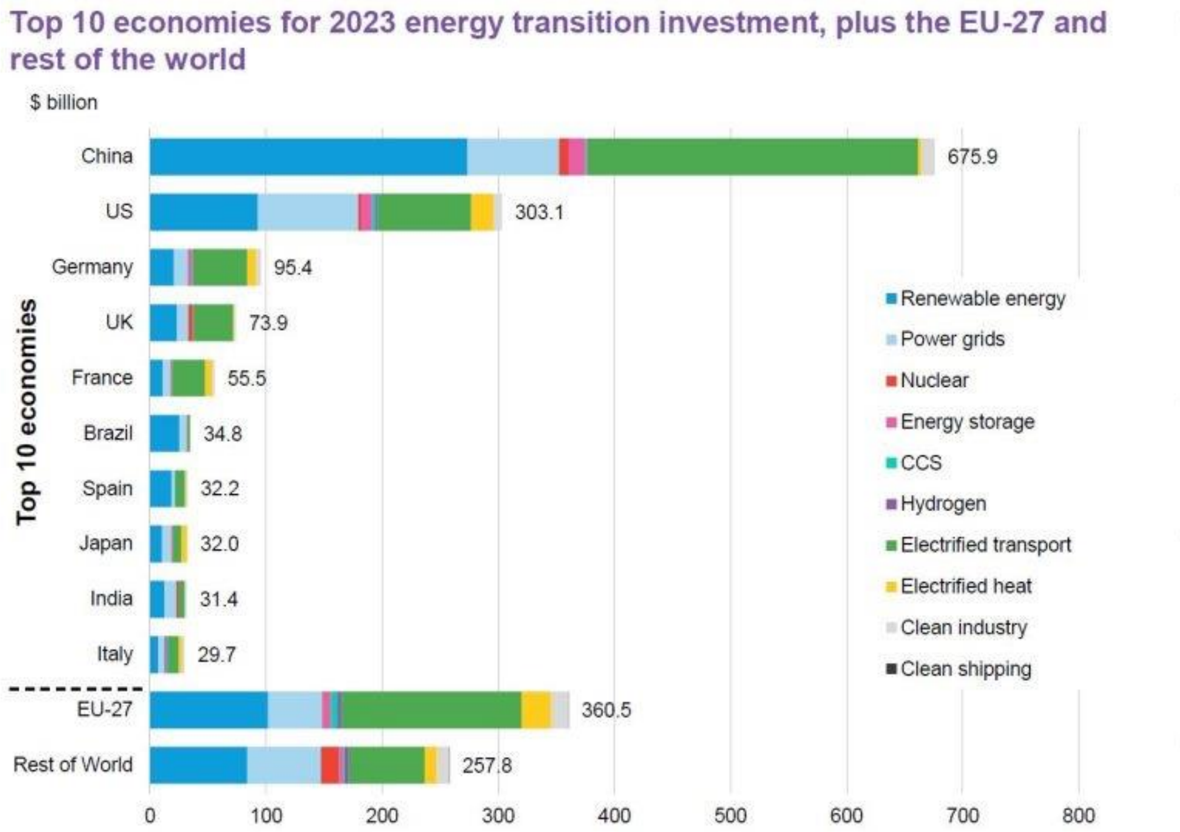

Figure 4: Top 10 economies for 2023 energy transition investment, plus the EU-28 and rest of the world. Source: BloombergNEF[25]

Huafa Group[26], a notable state-owned enterprise (SOE) based in China, exemplifies the potential of such organizations to tackle critical challenges, including climate change. It is also at the forefront of global innovation while ensuring economic sustainability.

[25] https://about.bnef.com/blog/global-clean-energy-investment-jumps-17-hits-1-8-trillion-in-2023-according-to-bloombergnef-report/
[26] https://en.cnhuafag.com/

Huafa Group: A Case Study of SOE Equity Investment and Strategic Development[27]

The Huafa Group, a prominent state-owned enterprise (SOE) in the southern Chinese City of Zhuhai, exemplifies the role of SOEs in fostering innovation and supporting emerging sectors through strategic investment. In 2023, Huafa Group launched the Zhuhai Science and Technology Innovation Evergreen Fund, which focuses on early-stage investments in small-scale and hard technology startups. This fund is a key part of Zhuhai's broader push to enhance its industrial capacity, with an emphasis on long-term, patient capital.

Zhuhai's focus on "patient capital"—investments that prioritize long-term gains over short-term returns—has gained significant traction in China's venture capital scene. The emphasis on patient capital is especially important in sectors like artificial intelligence, biomedicine, and semiconductors, which require extended investment timelines and high-risk tolerance. The Zhuhai Science and Technology Innovation Evergreen Fund, managed by SOE Huafa Group, provides much-needed financial support to early-stage tech SMEs (small and medium-sized enterprises), enabling them to scale and innovate. The fund's approach has a term of up to 14 years and focuses on hard technology investments that align with Zhuhai's strategy of becoming a major industrial hub with a trillion-yuan GDP.

Through this initiative, Huafa Group demonstrates the critical role SOEs can play in supporting the growth of China's innovation-driven economy. The fund's investments are intended to cultivate a long-term growth environment for SMEs, with flexibility built into the evaluation process, including mechanisms for risk tolerance and failure acceptance. By focusing on sectors such as AI, robotics, and the digital economy, Huafa Group is helping establish Zhuhai as a leading city in Guangdong's broader economic development.

[27] https://mp.weixin.qq.com/s/56Sgj2u8Sq0WsX47DqHQPQ

Notably, Beihai Biotech, a company supported by Huafa Group's early investment, achieved a major milestone in 2023 by receiving approval for its anti-cancer drug BEIZRAY from the US FDA—a feat completed in under five years. This achievement underscores the potential of early-stage investments to drive breakthrough innovations with significant global impact.

Through its focus on long-term, patient capital, Huafa Group is helping shape the future of China's tech-driven economy, demonstrating the vital role SOEs play in fostering innovation, supporting national economic strategies, and advancing industrial transformation.

Conclusion: The Transformative Role of SOEs

State-Owned Enterprises (SOEs) are key players in shaping both domestic and global economies. Their dual nature—operating with public objectives while participating in competitive markets—enables them to drive strategic economic transformation, foster innovation, and support long-term investment in emerging sectors. By leveraging "patient capital" and focusing on critical industries such as hard technology, infrastructure, and energy, SOEs such as Huafa Group are positioning themselves as integral partners in the global economic landscape.

Looking ahead, as they continue to evolve and adapt to market needs, SOEs have the potential to create substantial and lasting economic impacts both domestically and internationally. By leveraging their scale, strategic focus, and capacity for driving long-term investment, SOEs can serve as catalysts in addressing global challenges such as climate change and equitable economic development.

To maximize their impact, further research and policy reforms should examine how SOEs can enhance governance, foster collaboration with leaders in private equity and accelerate innovation in critical sectors. In doing so, SOEs can exemplify a model of economic sustainability and innovation for the 21st century.