CHINA'S GRAFT BUSTERS TARGET STATE-OWNED ENTERPRISES

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Executive Summary

1. China's ongoing campaign against corruption has shifted its focus from big-timers in the Party and government departments to senior executives in state-owned enterprises (SOEs).

2. Disciplinary inspections covered 14 major SOEs in 2013 and 2014 and to the fall of over 70 SOE executives. In 2015, the number of SOEs under inspection jumped to 43.

3. Activities that were conducted at public expense include travelling for leisure, playing golf, extravagant spending at private clubs, high-profile wedding and funeral ceremonies, gift giving as well as embezzling of public money.

4. Thanks to consistent support from the government, from 2003 to 2014, the total revenue of SOEs (excluding state-owned financial enterprises) more than quadrupled from 10,734 billion yuan to 48,064 billion yuan; total profits surged from 495.1 billion yuan to 2,476.5 billion yuan and tax contribution soared from 810.5 billion yuan to 3,786 billion yuan in the same period.

5. The overexpansion of super SOEs has caused serious socioeconomic repercussions. The government's increased support of SOEs has spawned the phrase *guojin mintui*, or "the state advances, the private sector retreats", among market proponents in China.

6. SOEs have been justified as the economic foundation for the socialist egalitarian ideology, but the luxurious lifestyles of SOE executives and their exorbitant pay package have aroused public scepticism and indignation.

7. Compared to the private sectors, SOEs have been favoured by the government and banks which often provide them with cheap credit, cheap land and undervalued natural resources. SOEs' huge profit also comes from their monopoly of certain lucrative industries that exclude the private sectors.

8. Reforms like increasing SOEs' dividend contributions to state coffers, or the cut in top executives' income and perks have long been blocked by vested interests. The heads of some centrally administered SOEs still hold ministerial ranks.

9. With the graft busters' intensified inspection of SOEs, the leadership could speed up SOE reforms. During the Party's Third Plenum in 2013, Xi Jinping received the mandate to give the market a "decisive role" in allocating economic resources.

10. Besides trimming executives' salaries, other policy changes including mergers of centrally administered SOEs and the reform of state-owned banks took effect in the first half of 2015.