

THE DOMINANCE OF STATE FIRMS IN THE CHINESE MARKET

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Executive Summary

1. The state sector continues to play a vital role in the Chinese business landscape with the expansion of business operations of state-owned enterprises (SOEs).
2. China's SOEs were largely driven by 110 giant state conglomerates (*yangqi*) under the State-Owned Asset Supervision and Administration Commission (SASAC).
3. The visible reach of SOE investment activities in both the domestic and foreign markets has been far reaching especially after the global economic crisis in 2008 and the Chinese government's subsequent implementation of a four trillion yuan stimulus package allocated largely to the state sector to boost the domestic economy.
4. State firms have also expanded operation in many competitive local industries, buying over many private companies or squeezing them out of the market.
5. Although SOEs appear to be profit-making enterprises, their real profit-making capability is poor and lags far behind that of private companies. Without the preferential policies and subsidies of the government, many SOEs would be running at a big loss.
6. The dominant position of the SOEs is a deterrent to private players entering the strategic domestic industries in the Chinese economy.
7. The rapid penetration of China's SOEs into various business activities has led to problems for not only the state sector and the national economy, but also society.
8. The granting of administrative monopolies to SOEs, the unfair market competition, the lack of efficiency, poor corporate governance, monopolistic practices, abuse of market power of the SOEs and the widespread corruption within the state sector are factors.

9. The state and the Party have no plans to retreat from the Chinese economy or relinquish their control of the SOEs as they remain steadfast about maintaining their influence in strategic sectors vital to national security and the national economy, especially in relation to the centrally administrated state firms.
10. Due to the state's reliance on the SOEs for job creation and tax revenues, and as the backbone for national economic development, the Chinese government has been hesitant about implementing any concrete SOE reforms over the last decade.
11. The state continues to maintain absolute control of the restructured state-owned companies in the recent reform. The state's push for consolidation of the SOEs is interpreted as a move that will further reduce domestic market competition.
12. For the SOE reform to work, the state has to let market forces work and create a level playing field for SOEs to engage in real market competition with non-state companies.