

CHINA'S PUSH FOR STATE-OWNED ENTERPRISE REFORM

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Executive Summary

1. China's recent state-owned enterprise (SOE) reforms are apparently part of the measures to boost the flagging Chinese economy.
2. As outlined in the new state plan, the government aims to sell SOE stakes to private investors to attract more private investment and diversify ownership.
3. Mergers and acquisitions among state conglomerates are promoted; a new wave of consolidation of mega SOEs from the railway to energy sectors has already begun recently.
4. Another key proposal in the new SOE reform is mixed ownership. The Chinese government views mixed ownership as the answer to increasing the efficiency and competitiveness of SOEs through improving productivity and corporate governance while maintaining their dominance in the Chinese economy.
5. State funds will be channelled to the SOEs and their subsidiaries and the new state capital investment corporations will be responsible for increasing capital returns on state-owned assets through managing SOE stock rights.
6. The proposal to establish state capital investment corporations is viewed as a Singapore-inspired quest, modelled on the Temasek Holdings.
7. The Temasek model enables the state to retain control of the SOEs while relinquishing the functions of day-to-day business operations and management to the individual companies.
8. The new reform proposals announced by the government are unlikely to solve the serious problems faced by the SOEs and the Chinese economy as a whole. Without loosening the state's tight grip on the SOEs, it will be extremely difficult for state firms to establish sound systems of management and corporate governance.

9. The direction of the reform is however unclear and some of its proposals seem conflicting.
10. The new reform proposals are also far less bold and ambitious than those implemented by former Premier Zhu Rongji in the late 1990s. Many of the reform proposals outlined in the plan were initially proposed by the Zhu administration.
11. The Party has chosen not to relinquish its control of the state-owned firms, but to further enhance its leadership and supervisory role in these enterprises through institutionalising the role of Party committee within the companies; this move will in all likelihood weaken the functions and role of the board of directors.
12. As the intention is to have more Party-appointed board directors in the SOEs, the separation of politics and government from the business of the SOEs may not be achievable through the reform.