

CHINA'S NEW ROUND OF STATE-OWNED ENTERPRISE REFORMS

Sarah Y. TONG

EAI Background Brief No. 1116

Executive Summary

1. In mid-September 2015, Chinese party leaders released a guideline on further reforming the country's state-owned enterprises (SOEs). This was nearly two years after the Party issued a grand reform blueprint in late 2013, indicating the difficulties in reaching agreements through negotiations and compromises.
2. High expectations were placed on this document as SOE reforms were featured heavily in the 2013 reform plan and essential to China's overall reform progress. Many were disappointed. As the 2013 reform agenda were marred by too many contradictions, the newly announced guideline could not clear all inconsistencies.
3. The 2013 reform plan sent conflicting signals on the role of the market and the state. While the market was stipulated to play a decisive role in the allocation of resources, the state sector would remain the pillar of the economy. Such ambiguity continued in this new guideline.
4. The new guideline further heightened such conceptual contradictions. It remains unclear whether SOEs should be pure business entities or should also shoulder various non-business responsibilities, such as exercising administrative control of the strategic industries.
5. To the emphases singled out by the 2013 reform plan, such as a shift from asset management towards capital management and the advancement of mixed ownership, the new guideline offers little operational clarifications.
6. Another key concern is the role of the Party in SOEs. The guideline indicates that the government intends to curb corruption by strengthening the party's influence. It includes measures to consolidate the party's direct participation in SOEs' governance. This is inconsistent with the overall goal of making SOEs more adaptive, market oriented, modern and international.

7. Nevertheless, the new guideline has made certain progress, including the promotion of rule-based corporate governance and a dual track management system in SOE governance with respect to both the firms and the top executives.
8. The future of China's SOE reforms remains uncertain if the conceptual dilemma regarding the role of the SOEs has not been resolved. Meanwhile, as large SOEs grow in strength, any serious reforms will encounter tough resistance.
9. Since China's SOE management is currently much fragmented and undertaken by different government agencies and at different levels, reforms can easily be sidetracked by either bureaucratic infighting or unresponsiveness.