CHINA'S STATE-OWNED ENTERPRISES IN THE POST-CRISIS ERA: DEVELOPMENT AND DILEMMA

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Executive Summary

1. China's SOE reform was initiated in the late 1970s. Early reforms were characterized by mostly decentralization and incentivization where limited managerial autonomy was granted to local governments and managers.

2. More significant restructuring was initiated in the late 1990s under then Premier Zhu Rongji. Following a strategy of 抓大放小 ("grasping the large and letting go the small"), most small SOEs were privatized while larger ones were retained and consolidated.

3. Today, most of the large industrial SOEs are in capital intensive sectors such as energy, power generation, transportation, defense, telecommunication, and heavy machinery.

4. While the number and staff strength of SOEs both shrank significantly, their average size had grown and profitability improved. Largely monopolies and dominating the various capital intensive industries, the 122 centrally managed SOEs are among China's most profitable companies.

5. The global financial crisis has provided large SOEs, particularly the centrally managed SOEs, with the opportunities to expand. Awash with cash and credits, they have increased their assets, consolidated their monopolies and expanded their sideline businesses such as real estate.

6. While SOEs have gained in size, they remain relatively inefficient especially in their use of capital as compared to private firms. There is also a tendency for them to abuse monopoly rights by charging high prices for basic commodities and services.

7. Furthermore, SOEs' retention of supernormal profits has also contributed considerably to income inequality since their employees are paid much more than their counterparts in the private sector and the national average.

8. The increasingly powerful and autonomous SOEs pose a severe policy challenge to the Chinese central government. The principal regulator, State Asset Supervision and Administration Commission, is not granted enough authority to regulate the politically vocal large SOEs.

9. The current political system also lacks the political incentives to rein in larger SOEs through either anti-monopoly laws or the direct legislative supervision of the National People's Congress.

10. Reforming the SOEs is no easy task for the Chinese government. In the foreseeable future, SOEs are likely to expand unabated as an autonomous force, creating more socioeconomic challenges and policy dilemmas.