

**CHINA'S STATE-OWNED ENTERPRISE
MIXED-OWNERSHIP REFORM**

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Executive Summary

1. The long-awaited reform to the state-owned enterprise (SOE) sector was spelled out at the third plenum of the 18th Party Congress. It laid out three principal guidelines for SOE reforms. The guidelines have some distinct features that were unaddressed in previous reforms.
2. First, it affirms the critical role of the private sector in the economy, representing a major shift in official ideology away from the superior status of the state sector. Second, the Chinese government no longer insists on majority state ownership, except for strategic industries.
3. Third, SOEs will be categorized under three groups based on their roles in the national economy. Fourth, the reform will facilitate the trading of state assets and professional management of state capital.
4. SOEs are no longer the dominant player of the Chinese economy as their share in almost all economic indicators has declined enormously in the last decade. However, their influence is still substantial as they are concentrated in a small number of jumbo-sized SOEs that dominate the commanding heights of the national economy.
5. Since the late 1980s, SOEs have gradually transitioned to a mixed-ownership structure. By end 2011, more than 90% of SOEs had been restructured. Seventy-two percent of central SOEs and their subsidiaries have been corporatized and almost all local SOEs have transformed from wholly state-owned enterprises to shareholding companies with multiple shareholders.
6. Restructuring SOEs has led to a decline in the share of state-owned assets of SOEs. In the last two decades, while the total assets of SOEs increased by 20 times, the share of state-owned assets declined from 49% to 28%.

7. The recent promotion of mixed ownership reform reflects the Chinese government's concern for the decline in SOEs' profitability. The sale of state assets will create a new revenue source for local governments, while the dismantling of vested interest groups is crucial for Xi Jinping's policy agenda, particularly his anti-corruption campaign.
8. The SOE reform faces two credibility challenges. One is to restore credibility to the reform commitment and the other is to convince private investors that their interest will be sufficiently protected in the mixed-ownership structure. It is also uncertain whether Temasek Holdings is a good model for emulation for the Chinese government in its reform.