

**CHINA'S SUPER STATE GIANTS:
BIG BUT NOT STRONG**

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Executive Summary

1. The Chinese government is intent on merging state-owned enterprises (SOEs) to create supergiants. Its rationale is to address the serious issue of excessive production capacity for many domestic industries and integrate the value chain of related upstream and downstream domestic industries.
2. The state believes that promoting mergers of the smaller and less competitive state-owned firms with the larger and more competitive ones will help increase state firms' market share abroad by mitigating excessive internal competition and eliminating price wars among domestic state firms.
3. As a consequence of these state-driven megamergers between state-owned companies, the total number of non-financial centrally administrated SOEs (CSOEs) under the supervision of the State-owned Assets Supervision and Administration Commission of the State Council had fallen from 189 in 2003 to 98 as of 20 September 2017.
4. From the perspective of the Chinese government, megamergers will allow SOEs to be better prepared to implement the “go global” strategy and take a lead in advancing the state's strategic Belt and Road Initiative (BRI) through winning projects overseas.
5. Despite the government's notion that “big is beautiful”—China's state-owned enterprises are getting bigger and bigger—they are not getting stronger.
6. According to an International Monetary Fund Report in 2017, China's SOE profits have decreased and are substantially lower than those of the private sector mainly due to overcapacity and weak corporate governance. The state-driven mergers have therefore failed to shore up performance and efficiency of the struggling state sector.

7. The merger-oriented reforms not only have failed to deal with the most pressing issues facing the state sector, but also may have been aggravating them.
8. The creation of these super state giants has made it more difficult for domestic and foreign private firms to enter the industrial sectors dominated by SOEs, or to compete on a level playing field.
9. As state-owned companies are oversized and heavily debt ridden, the sprawling state sector has to focus on its core business and trimmed its less profitable activities to improve efficiency and strengthen competitiveness.
10. The Chinese authority is evidently not slowing down the merger process, or even reconsidering its merger strategy.