HAS CHINA'S STATE-OWNED ENTERPRISE REFORM FAILED?

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Executive Summary

1. State-owned enterprise (SOE) reform has often been hailed as a central component of the Chinese government's agenda for domestic industrial upgrading and economic restructuring.

2. As the Chinese economy slows down, the reform of SOEs has been made even more vital and urgent, given the significance of SOEs to the nation's domestic industrial and economic development.

3. Despite receiving vast resources and enjoying preferential treatment from the state in terms of favourable policies, capital funding and bank credit, SOEs are far less profitable and much more indebted than their private-owned counterparts in China.

4. In September 2015, the Central Committee of the Chinese Communist Party and State Council of China jointly issued the "Guiding Opinion on Deepening Reform of the State-Owned Enterprises", setting out a more detailed action plan to advance the process of SOE reform in China. A series of state directives and guidelines as well as a raft of pilot programmes has since followed.

5. The Chinese authority promised to loosen control of business operations and management of state sector companies, especially those engaging in non-strategic and purely competitive sectors, and to separate SOEs into two groups by function.

6. At that time, there was certain optimism among domestic scholars that the state's reform plan could succeed in making SOEs more efficient and competitive, and open up the domestic market in China to fairer competition.

7. Nevertheless, the progress of SOE reform has been slow, inadequate and disappointing. The Party and the state have during this time made clear their intention of letting SOEs play a dominant role in the Chinese economy by beefing them up and protecting them from real competition.

8. Mixed-ownership reform was once regarded as the centrepiece of the new round of SOE reform. However, due to the concern that the state might lose control of SOEs and risk the "leaching away of state assets", the Chinese authority has been conservative about implementing the promised mixed-ownership reform.

9. Party committees were set up in all state firms to take charge of managerial appointments and promotion, as well as assume responsibility for party building and party discipline within the firms.

10. By institutionalising the central role of the Party in state-owned companies, the Party is further politicising the internal control and management of SOEs; hence "Party centrality" or "Party as the core leadership" has become a defining feature of China's SOEs.