Prospects for State Owned Enterprise Reform in China

Tomoo Marukawa (Institute of Social Science, University of Tokyo)
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Trends in State Owned Enterprise (SOE) Reform

- Privatization of small and medium SOEs and drastic downsizing of workforce during the latter half of 1990s.

- Stagnation of SOE reform since 1999. Chinese Communist Party (CCP)’s decision on SOE reform in 1999 stipulated that SOEs assumed dominant positions in “important industries and important sectors”
Reversal of Downward Trend of SOE Assets in 2009

Total Amount of SOE Assets (as % of GDP)
SOEs’ share in GDP increased since 2010
CCP’s new decision on SOE reform in November 2013

- Renewed momentum for SOE reform
- SOEs will no longer dominate “important industries and important sectors” but the state will continue to invest in these sectors
- SOEs will be transformed into “mixed ownership” firms, which implies that a substantial portion of their shares will be divested and sold to private investors
Hungai (transition to mixed ownership) plans

- China National Petroleum Corporation (CNPC): Divestiture of gas pipeline network in eastern China. Selling price estimated to be around 230 billion renminbi
- SINOPEC: Sold 30 percent of its sales subsidiary, which has 30 thousand gas stations, to 25 shareholders
- CITIC: The headquarters became a listed company
Local governments’ *hungai* plans

- Shanghai: All SOEs will be transformed into mixed ownership within 3 to 5 years
- Hebei Province: After the transformation to mixed ownership, there will be no lower limit of state ownership in competitive industries
Leading Group for SOE Reform

- The State Council organized the Leading Group for SOE Reform in November 2014.
- Discord between State-owned Assets Supervision and Administration Commission (SASAC) and Ministry of Finance over the supervision of state asset investment companies.
- Discord between SASAC and State Development and Reform Commission over the scope of SOEs that should be transformed into mixed ownership.
Prospects for SOE Reform

• SOE reform will proceed in the midst of conflicts between the promoting and resistant forces.

• As the opening up of mobile telecommunications to private mobile virtual network operators (MVNOs) and the entry of five privately-owned banks suggest, the economy is gradually but irreversibly moving to privatization.