Current Situation of Chinese State-Owned Assets Management

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***Abstract*—This article introduces the current scale and development of Chinese state-owned assets; the situation about separating government functions from State-Owned Enterprise management and state-owned capital in China; modern corporate system construction and improvement in SOEs, as well as the shortages in the process; comprehensive and deep mixed ownership reform and equity diversification reform at SOEs and for state-owned assets; enhancement of Chinese Communist Party construction in SOEs; SOEs' great effort on innovation promotion; institutions and governments' assets management; and the situation of state-owned assets' concentration.**

***Index Terms*—China, state-owned assets, SOE, party building.**

I. Introduction

In 2018, Chinese State-owned Enterprises' (SOEs, including state holding enterprises) gross revenue is 58750.07 billion RMB, with a year-on-year increase of 10.0%; SOEs' total profit is 3387.77 billion RMB, with an increase of 12.9%; at the end of 2018, SOEs' general assets is 178748.29 billion RMB, with an increase of 8.4%; total indebtedness is 115647.48 billion RMB, with an increase of 8.1%; total owner's equity is 63100.81 billion RMB, with an increase of 9.0%. (Translated based on the data from PRC central government website, http://www.gov.cn/shuju/2019-01/22/content_5360098.htm, reference date: 2019-1-22)

In 2019, the gross revenue is 62552.05 billion RMB, with a year-on-year increase of 6.5%. Among this, the gross revenue of central enterprises is 35899.38 billion RMB, with a year-on-year increase of 6.0%; the gross revenue of locally administered SOEs is 26652.67 billion RMB, with a year-on-year increase of 8.2%. SOEs' total profit is 3596.10 billion RMB, with an increase of 6.1%. Among this, the profit of central enterprises is 2265.27 billion RMB, with an increase of 8.7%; the profit of locally administered SOEs is 1330.83 billion RMB, with a drop of 1.5%.

In 2019, SOEs' net income retained after tax is 2631.84 billion RMB, with an increase of 5.2%, the net profit attributable to parent company is 1549.60 billion RMB. Among this, central SOEs' net income retained after tax is 1653.99 billion RMB, with an increase of 10.4%, the net profit attributable to parent company is 964.42 billion RMB; locally administered SOEs' net income retained after tax is 977.85 billion RMB, with a drop of 2.7%, the net profit attributable to parent company is 585.19 billion RMB. At the end of December of 2019, SOEs' asset-liability ratio is 63.9%, with drop of 0.2 percentage. Among this, central SOEs' asset-liability ratio is 67.0%, with drop of 0.4 percentage; locally administered SOEs' asset-liability ratio is 61.6%, with an increase of 0.1 percentage. (Translated based on the data from Asset Management Division, Ministry of Finance, PRC, http://finance.sina.com.cn/wm/2020-01-21/doc-iihnzhha3967904.shtml, reference date: 2020-1-21).

In 2020, Chinese State-owned Enterprises' (including state holding enterprises) gross revenue is 63286.77 billion RMB, with a year-on-year increase of 2.1%; SOEs' total profit is 3422.27 billion RMB, with a year-on-year decrease of 4.5%. (Translated based on the data from *2020 Chinese State-owned Enterprises and State Holding Enterprises' Economic Performance*, http://www.cssc.org.cn/page91?article_id=3411, reference date: 2021-4-25).

China has the largest number of SOEs in the world, and its state-owned assets scale is one of the largest in the world. This as well as China's attention to state-owned assets provide a good practice and research environment for China. So, for decades, Chinese SOEs have developed quickly, researches about Chinese state-owned assets and SOEs have been carried out extensively, even many foreign scholars have entered this research field, and Chinese state-owned assets and SOEs management and governance have also developed greatly. In many industries of China, SOEs are corporate champions.

II. Separate Government Functions from SOE Management and State-Owned Assets/Capital

For decades, China has made great efforts on separating government functions from State-Owned Enterprise management and state-owned assets/capital. China has also founded many government capital investment or operating companies/groups at central and local levels, which are called investment or operating platforms, some like Temasek Group in Singapore. Then Chinese governments at different levels can focus on the supervision of state-owned assets and SOEs, and empower state-owned stock right to these

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platform companies, let them invest and operate state-owned capital effectively [1].

Governments of some provinces or cities, e.g., Chongqing, demand these platform companies not to hold controlling interest, not to consolidate financial statements, and not to be in debt when they invest other companies. Then these companies can maintain investment flexibility and avoid intervening entity enterprises much [2]. This is beneficial to maintaining and adding value for state-owned assets.

These policies and measures show that Chinese government is gradually changing to *emphasize on state-owned capital supervision*, these also lay a good foundation for modern corporate system construction. The construction and improvement of modern corporate system is the key job for Chinese SOE reform.

But in some SOEs, the board of shareholders, the board of directors, and the board of supervisors do not perform their functions actually, because these SOEs can not get rid of too much direct interference from the government. Take Shanghai, one of Chinese most open cities, as example, many boards of directors in SOEs still do not own important personnel right, strategic decision-making power, *etc.* These rights are now hold by different level of governments. However, governments of different levels are just planning and implementing to empower the right of appointing and dismissing vice-general manager, *etc.* to SOE boards of directors [3], [4].

Although *Company Law of the PRC* endows the power of appointment and removal to boards of shareholders and boards of directors, but market-oriented selection and appointment for senior executives are not carried out sufficiently. Different from this situation, there are some SOEs, including the ones administrated by the central government, which go much farther for market-oriented selection and appointment, even for general managers.

And there is almost no obstacle in identity switching between public officers and SOE senior executives. Therefore, SOE senior executives do not feel enough operation obligation and pressure, this falls short of market-oriented characteristics. And it is easy for public officers to obtain SOE senior executive positions, if these public officers are not appropriate candidates for these positions, these will be bad appointments [5], [6].

On the other hand, we should also understand the fact that totally separating government functions from SOE management and state-owned assets is impossible and is not necessary, total separation does not fit physical truth either just as it is in other countries. The government and Chinese Communist Party (CCP) should not renounce paying attention to and supervising SOEs and state-owned assets.

III. Improve SOEs' Corporate Governance

Chinese SOEs' corporate governance has a combination of characteristics of USA, Britain, Germany, and Japan's corporate governance. For example, Chinese SOEs attach importance to both internal and external supervision (as USA companies do), Chinese SOEs have a board of supervisors (as German companies do, different from USA ones), but it is not above a board of directors in a governance architecture (different from German companies).

Many Chinese SOEs have employed non-executive directors, but I do not agree with the opinion that non-executive directors should be the majority in boards of directors, although some Chinese SOEs have managed to reach this status as many companies do in western countries, especially in USA. My reasons are as follows.

Firstly, Chinese business environment differs from USA's, e.g., Chinese SOEs have a board of supervisors, and the Party organization in SOEs can also supervise operation, then the need for non-executive directors' supervision is not so big. Chinese SOEs have much higher equity concentration, and major shareholders need more directors' seats, some of which are not for non-executive directors, at least not for independent directors.

Secondly, generally speaking, compared with executive directors, non-executive directors are deficient in industry experience, time spent on employers, acquaintance with employers, *etc.*

Thirdly, Compared with private companies, SOEs care more about social benefits, and are regulated by the government strictly, so the need for non-executive directors' supervision is not so urgent.

Lastly, the situation that a director holds a concurrent post of CEO in China is less than that in USA which reduces demand for non-executive directors, too [7], [8].

The opinion about *Number One Leader* or chief leader is still popular in Chinese enterprises as it is in other countries, including western countries. We should firmly get rid of this opinion to build right and effective corporate governance. Different managers and powers in a company should control and restrain each other, powers should run under the control of established institution and mechanism, and there should be no *Number One Leader* or chief leader. There are also some Chinese SOEs which have avoided this situation through institution and operation mechanism.

Although power check and balance are the core idea of corporate governance, but they are not the aim, they are the measure. The aim is to ensure a company's scientific decision making and healthy operation. We should not excessively emphasize check and balance, because it can not ensure maximizing the benefits of all parties, sometimes, it reduces efficiency instead.

China classifies SOEs as commercial category, functional category, and public service category, and implements classified reform, supervision, and assessment. For some important or special SOEs' reform, Chinese central and local governments even adopt the measure of *One Corporate One Policy*.

The improvement of corporate governance and modern state-owned corporate system can help mixed ownership (reform) play a more important role in China.

IV. Promote Mixed Ownership Reform and Equity Diversification Reform

Recent years, China is pushing mixed ownership reform for SOEs. Mixed ownership reform is helpful to activate state-owned asset stock, increase investment, and *create property right condition for separating government functions from SOE management*. Mixed ownership reform also creates good inner environment for SOE senior executives' remuneration institution reform, because private companies and foreign companies' managers are introduced in mixed ownership enterprises, then there is a benchmark for reference. Now many Chinese SOEs are mixed ownership enterprises.

But many SOEs still need to reduce the proportion of state-owned equity to solve problems caused by single-large shareholder situation and to encourage other investors' investment positivity, especially private and foreign investors' positivity. Only for companies in industries that the government should control and lead, majority ownership or control power of the state should be kept. Some SOEs have reduced state-owned equity proportion and some have even sold state ownership as Table I shows. Appropriate equity flows are helpful to raise operating efficiency, maintain value, and add value.

TABLE I: STATE-OWNED LISTED COMPANIES' TRANSFER OF CONTROL IN CHINESE SHENZHEN STOCK EXCHANGE

Stock code	Year	Profit after reduction of non-recurrent gains and losses in the year before change of control (hundred million RMB)
000813	2016	-0.05
000913	2016	-1.53
000510	2016	-1.46
000953	2016	-1.11
000918	2016	-25.88
000751	2017	1.53
000538	2017	27.00
002033	2017	2.19
000601	2017	4.37
000597	2018	1.15
000678	2018	-0.06
000301	2018	1.57
300291	2018	1.00
000715	2019	0.95

(Note: In 2016, the SOEs which transferred control were all in deficit, the aim of transfer control was adding value for state-owned assets; in 2017, the SOEs which transferred control were all profitable, the aim of transfer control was maintaining value; in 2018, almost were profitable, the aim of transfer control was mainly maintaining value, too.)

Some Chinese SOEs have been practising employee shareholding to encourage employee and enhance internal supervision. But employee shareholding is not popular in SOEs yet, since it still needs unifying the understanding in and outside of SOEs and balancing for some problems, such as fairness, preventing the loss of state assets, and scope of employee stock ownership plan [9], [10]. Related laws and regulations also need to be formulated and improved.

I support enlarging the scope of shareholding, including participants scope and raising whole shareholding ratio for employee, because this is more likely to realize encouragement function. It is necessary to adjust employee shareholding policies according to companies' change.

Some Chinese SOEs also invest in private companies and even purchase other public company's majority ownership, then become public companies through internal assets recombination—backdoor listing. Many mergers as well as internal and external recombination have been occurring in China, they are important measures for SOE reform—help Chinese SOEs cut overcapacity, say goodbye to *big and not strong*, and find key sectors and correct directions for development. But measures should be taken to prevent these emerging big companies' monopolistic acts.

Mixed ownership reform and equity diversification reform are complementary measures in China, they are effective and helpful for state-owned assets management and SOEs' reforms in many situations, and are popular in China. These two measures together expand objects of cooperation and partners of joint venture for SOEs from different sectors, levels, and areas. SOEs and state assets administrations can use these two measures simultaneously if needed and the condition permits.

V. ENHANCE CHINESE COMMUNIST PARTY CONSTRUCTION IN SOES

Recent years, China has been enhancing Chinese Communist Party construction in SOEs, and making Party organization effectively participate in corporate governance. But this is a difficult mission, it needs innovative practices, and the key is to effectively allocate and balance power between corporate governance system and SOE Party organization as well as in their cooperation.

The main aim of Party construction is not for checks and balances between Party organization and board of directors, managers, *etc.*, but for helping SOEs correctly decide and healthily operate.

CCP organization is suitable and necessary for Chinese SOEs. CCP leads every strength in China, it is on behalf of the people and SOE Party organization is on behalf of staff. Without Party's leadership, it is easy for SOEs to lose correct development direction and path—this is fatal, Soviet Union's innumerable SOEs' tragedy had already shown this in 1990s. Party organization integrates into an SOE closely, and is related with each side of an SOE. This help CCP organization effectively participate in SOE governance and management. Party organization can coordinate governance bodies in and outside of an SOE. Fig. 1 shows the mechanism that CCP organization participates in SOE corporate governance.

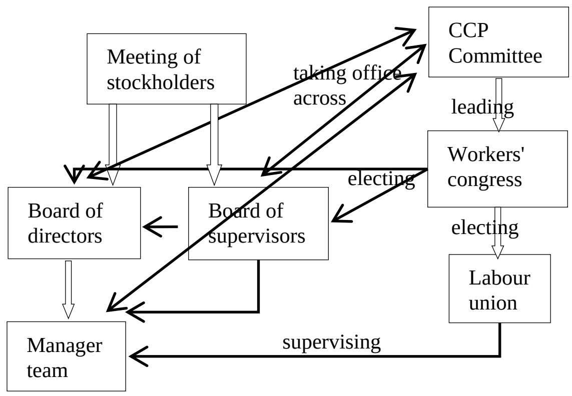

Fig. 1. Broad sense SOE governance structure and basic relations among the governance bodies.

(Note: Since western people are familiar with corporate governance, I do not label the relations on the left part of Fig. 1 in order to show the right part clearly and make the whole figure neat.)

Through Party construction China can improve SOE corporate governance, e.g., improve supervision system, solve *internal control* problem, politically influence SOEs, and generate Chinese characteristics for corporate governance or provide Chinese solution for corporate governance—at least, this has reference value for socialist states. For example, Party construction can lead and coordinate different supervision bodies in SOEs, help them form supervision resultant force.

It should also be noted that necessary independence should still be kept for both corporate governance system and SOE Party organization, this will help them perform well and effectively supervise each other. Party committee should avoid the preference of grasping immense power and being reluctant to do *trifles and routines*, actually they are Party organization's duties. SOE Party organization should focus on political leadership and supervision, let board of directors and senior managers do more decisions for company strategies and operation.

Some private companies also enhance Party building as actively as SOEs do, because they believe that Party building does good to them just as it does to SOEs. The boss of a private company named HOdo Group has even published books and papers about the group's experience of Party building. Most Chinese private companies have a Party organization and support Party's activities.

In sino-foreign joint ventures, many foreign managers and investors also support Party building, because they have also found its positive significance and value for their company, e.g., many Party members have set a good example in doing jobs.

Sinopec, one of Chinese largest companies and at the top 10 of Fortune 500 list, sets a good example in Party building—99.68% of its overseas shareholders support its Party building work to be written in its articles of corporation, and these shareholders hold 13200 million shares. Other cases such as Shanghai Volkswagen and China Hualu Panasonic AVC Networks Co., Ltd. also show foreign parties' support for Party building and for writing Party building work in their articles of corporation.

The above 4 aspects are all helpful to improve modern state-owned corporate system.

VI. China Encourages SOEs Putting a Great Effort on Innovation

China encourages SOEs putting a great effort on innovation, different levels of governments take SOEs' innovation investment as profit during performance assessment, and build fault-tolerant mechanism and environment for innovation activities. These measures have a good effect on Chinese innovation progress. Innovation is also a measure for SOE reform.

A few Chinese SOEs such as Haier Group have set up an innovation platform or commercial ecosystem which is open to people all over the world. Haier staff or outsiders can become entrepreneurs or micro business-men on the platform to develop their career. Haier Group can obtain innovations, wisdom and commercial opportunities from these entrepreneurs.

Haier Group's other innovation and reform in organization structure and business model as well as its network strategy make the large Chinese SOE be bouncy and full of energy. Haier case has been world-famous and been written in western universities' case material. Haier even creates a category of world brand standard.

Another similar case is Shenyang Machine Tool Group Corporation.

Mergers and recombination which have been creating new large companies dissertated in Section IV above, as well as state-owned assets' and SOEs' withdrawal from general competition areas and concentration in key areas discussed in Section VIII below will probably both lead to SOEs' monopolistic status or entering monopolistic or semi-monopolistic areas. Probably this will hinder innovation and reform, so it is necessary to take steps to appropriately increase competition in related areas.

VII. Institutions and Governments' Assets Management

At different levels of institutions and governments' assets management, China still uses appropriation (fund allocation) instead of material object leasing (western countries' practice), and the sharing mechanism for this kind of assets has not been established extensively. Then waste phenomena and excessive admeasuring are still not individual phenomena in these organizations.

If most aspects with a stake do not want a big reform for current institutions and governments' assets management, then we should enhance supervision in this area, including effective inspection tour with Chinese characters. Big reform also needs big reconsitution and cost, so incremental improvement is not a bad choice. Inspection tours from different management layers can play an effective roll in improving institutions and governments' assets management.

In daily management for these areas, we should enhance system implementation and education for staff, enhance inspection for implementation.

VIII. State-Owned Assets' Concentration

Chinese state-owned assets of business class are mostly concentrated in strategic emerging industries, advanced manufacturing industry, modern service industry, and infrastructure and people's livelihood guarantees area. Take Shanghai as an example, the concentration reaches 85% in year of 2018.

But I do not think that it is appropriate and efficient to blindly withdraw from general competition areas, to the contrary, blind withdrawal will cause big loss. Some western countries, *e.g.*, Britain, suffered big loss during repeated privatization and nationalization procedure, and this procedure also includes blind withdrawal from general competition areas.

It is necessary to concentrate state-owned assets of business class in key industries and areas, but we need to carry out this policy practically and realistically. Transferring of state-owned assets from general competition areas to key industries and areas should also be compliant with business rules, not only be directed by government will and schedule. During this rational procedure, maintaining and adding value for state-owned assets can possibly be assured.

Conflict of Interest

The author declares no conflict of interest.

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