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# Evolution of PRC's SOE Reform and Latest Practices

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## I Overview of PRC's SOE Sector



## II Evolution of PRC's SOE Reform ( 1949-2013)



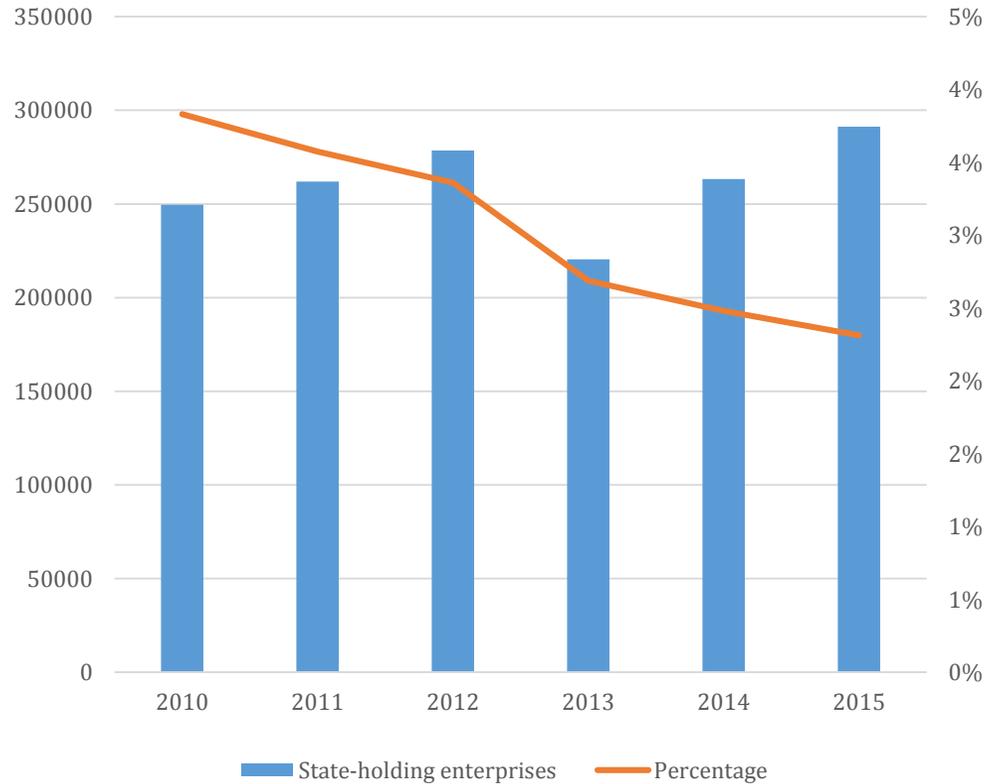
## III Latest Practices of PRC's SOE Reform



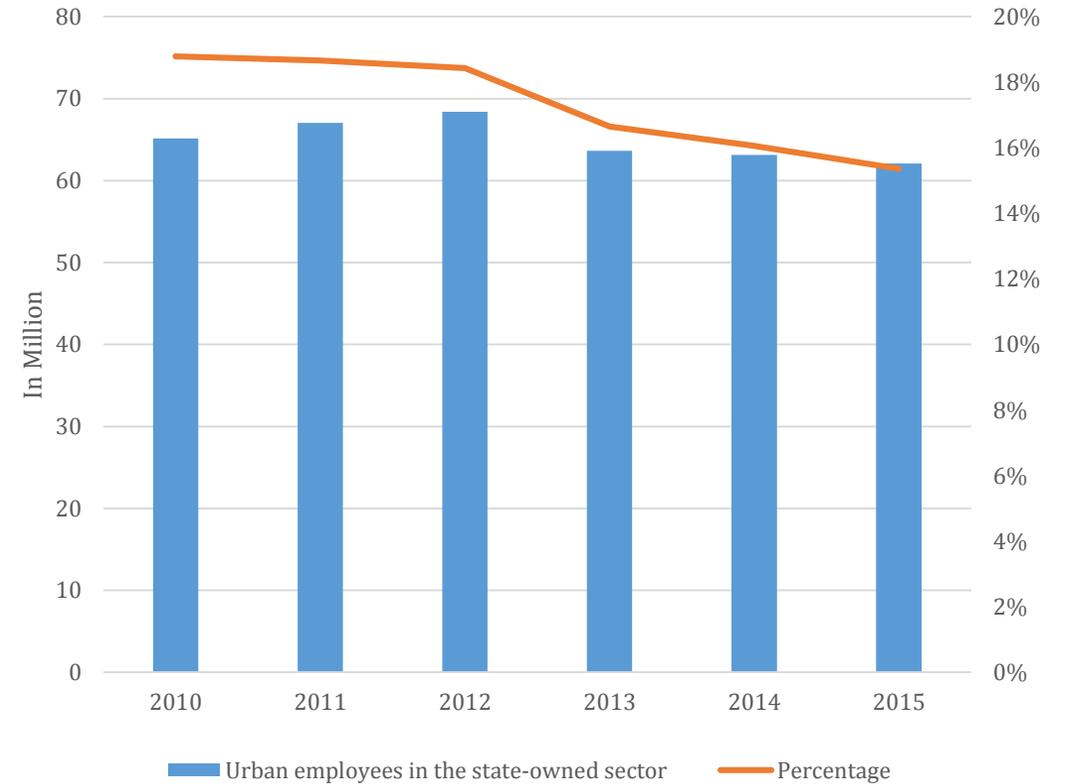
## IV Implications for ADB

# Overview of PRC's SOE Sector—Total Number & Employment

### Number of State-holding Enterprises and Percentage in all Enterprises



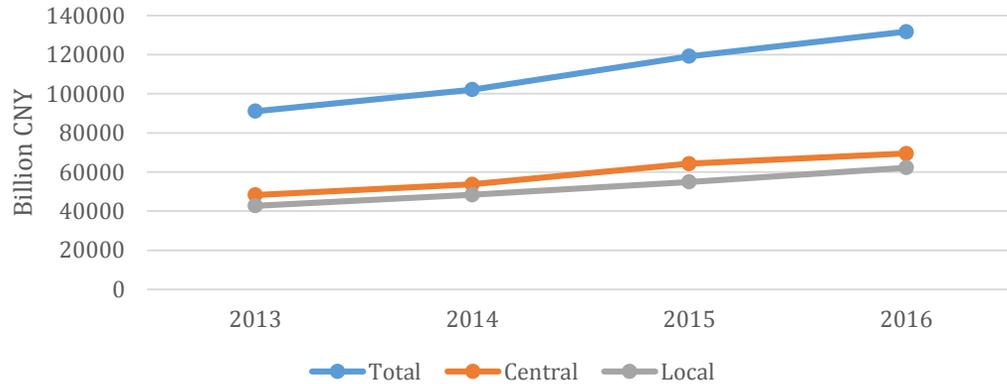
### Number of Urban Employees in the State-owned Sector and Percentage in Urban Employeess



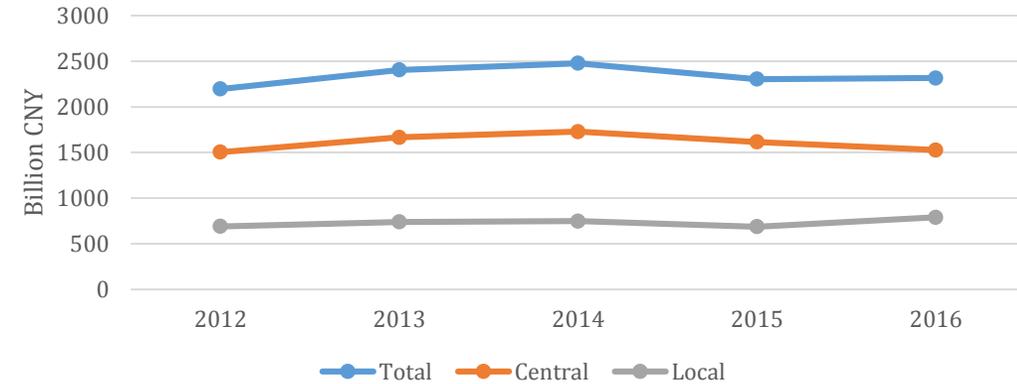
Data source: National Bureau of Statistics, PRC

# Overview of PRC's SOE Sector—Total Assets, Profit & Gross Revenue

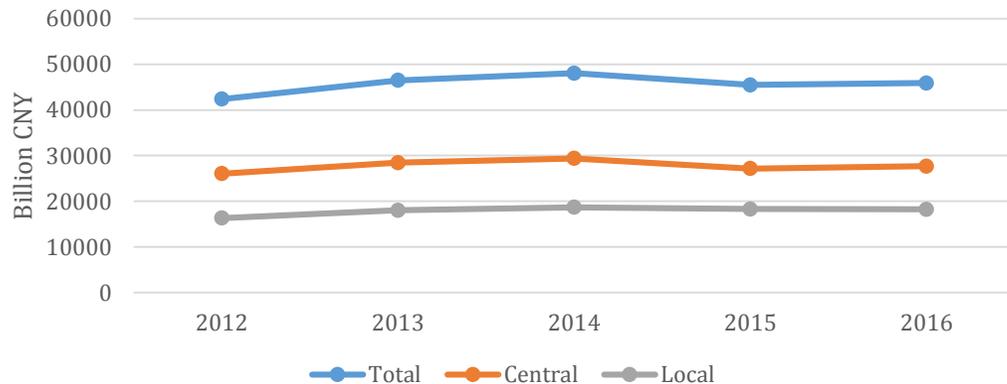
### Total Assets of SOEs 2013-2016



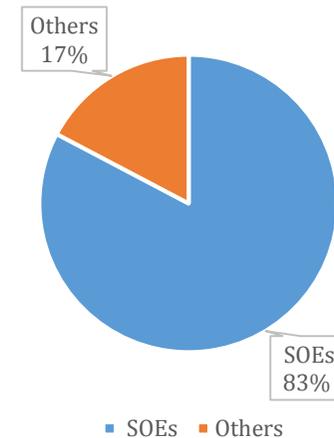
### Profit of SOEs 2012-2016



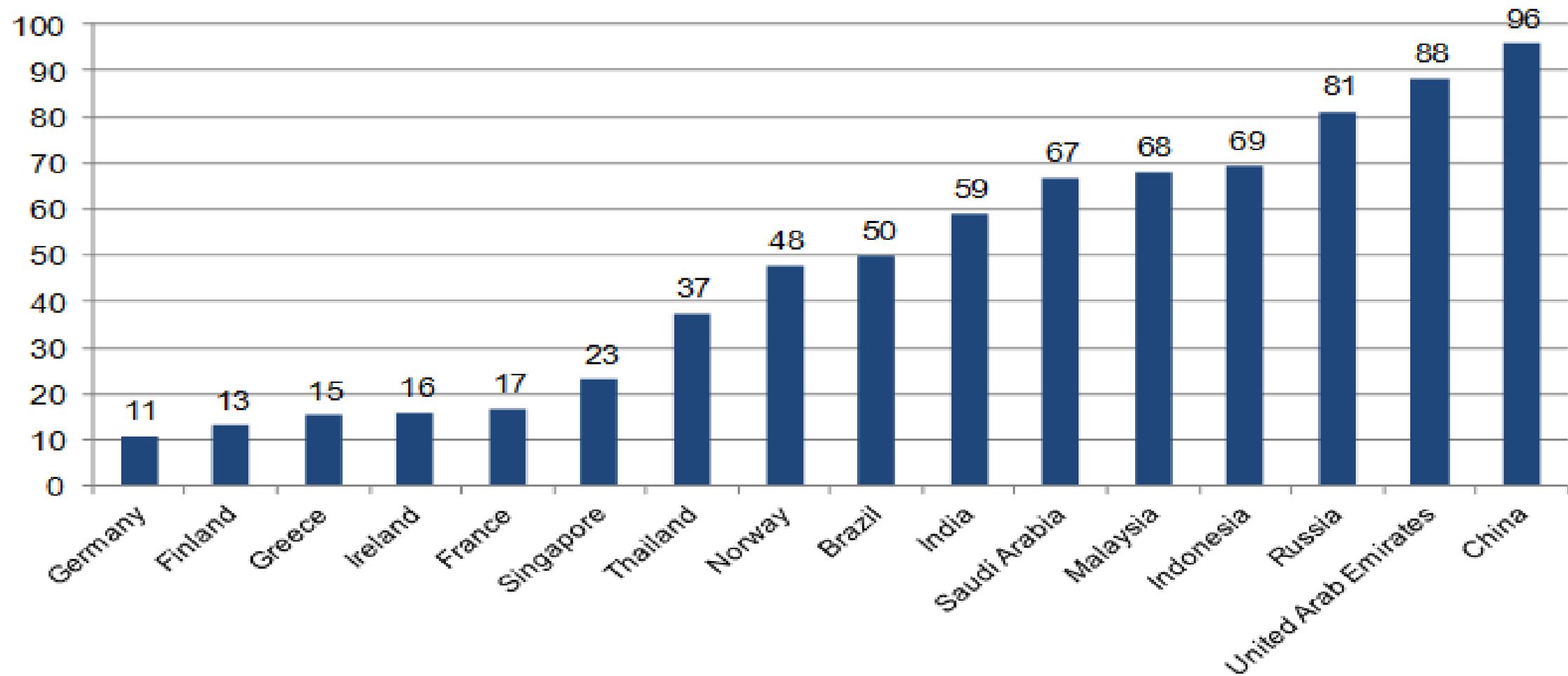
### Gross Revenue of SOEs 2012-2016



### Number of China's SOEs on the Top 500 List (2016)



# SOE Shares among Countries' Top Ten Firms (%)



Source: Max Büge et al., 2013

## II Evolution of PRC's SOE Reform ( 1949-2013)

1	2	3	4
1949-1978	1978-1992	1992-2003	2003-2013
Enterprises in the Planned economy	Expanding Autonomy	Establishing Modern Corporate System & <i>Zhuadafangxiao</i>	The Foundation of SASAC

# 1949-1978: Enterprises in the Planned Economy

Military firms in  
Liberated Areas

Confiscated  
Bureaucratic  
Capital

Socialized  
Capitalist  
Industry and  
Commerce

Public Finance  
Investment

There were some trials to coordinate the relationship between the government and the enterprises.

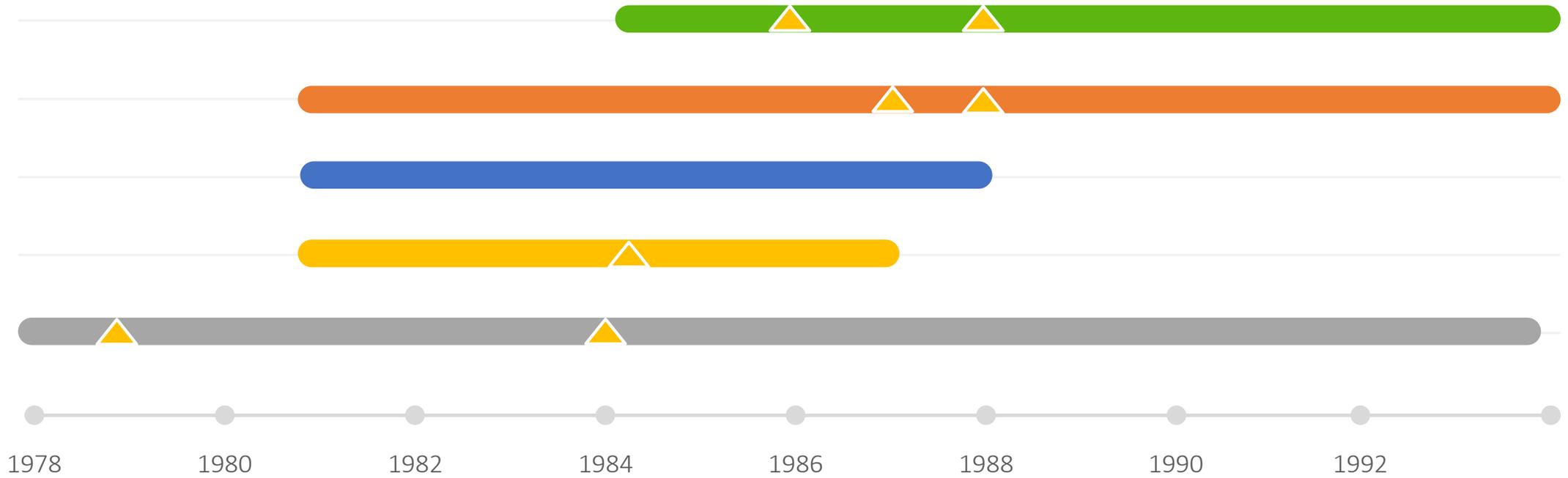
All adjustments and changes were made within a highly centralized planned economy.

Enterprises were under the strict control of the government without autonomy and vitality.

# 1978: The 3<sup>rd</sup> Plenary Session of The 11<sup>th</sup> CPC Congress



# 1978-1992: Expanding Autonomy



Expanding  
Autonomy  
(Managerial &  
Financial)



Industrial  
Economic  
Responsibility



Two-step  
"Profit to Tax"



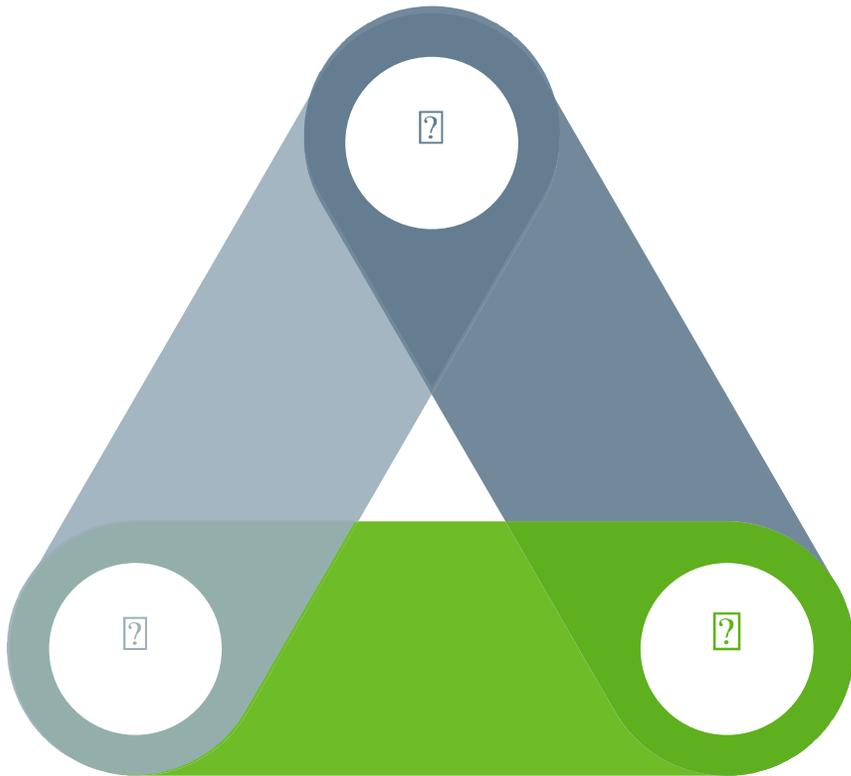
Contract  
Responsibility  
System



Lease System

# 1992: Deng's Southern Tour and the 14th Communist Party Congress





Modern Corporate System

1992: Proposals on Norms of Limited Companies & Proposals on Norms of Limited-Liability Companies

1994: The Corporate Law & 100 pilots



*Grasping the Large  
Releasing the Small*

1995: Proposals on Designing the 9<sup>th</sup> Five-year Plan and 2020 Goal

Grasping the Large: 1000 enterprises

Releasing the Small: Proposal on Releasing and Revitalizing Small Enterprises



Supportive Policies

1992: Accounting Standards for Enterprises & General Financial Standards for Enterprises

1994: The Labor Law

Separating social service function from the enterprises

## 2003: The Foundation of SASAC





## Organizational Framework

2003: The State-owned Asset Supervision and Administration Commission (SASAC) was founded.  
By June 2004: All provinces (including autonomous regions and direct-controlled municipality) founded their own SASAC.



## Legal Framework

2003: Interim Regulations on the Supervision and Administration of State-owned Asset in Enterprises  
2008: Law of State-owned Assets in Enterprises



## Evaluation System of Management

2003: Interim Rules on the Business Performance Assessment of General Managers of State-Owned Enterprises  
2004: Interim Rules on the Compensation Management of General Managers of State-owned Enterprises



## Reform in Monopoly Industries

The separation of government and enterprise  
Relaxing market entry and introducing competition system  
Enhancing regulation

# Latest Practices of PRC's SOE Reform

The 3<sup>rd</sup> Plenary Session of The 18<sup>th</sup> CPC Congress



# Policy Framework



# Pilot Programs



Realizing the power of the governing board



Mergers and consolidation of central enterprises



Recruiting managers through the market



Mixed ownership reform (NDRC)



Promoting the profession managers system



Employee shareholding



Differentiated remuneration system



Information disclosure of central SOEs



SoCIEs & SoCOEs



Reducing social service functions and resolving historic issues

# Establishment of SoCIEs and SoCOEs

	SoCIE	SoCOE
Mission	Enhancing industrial competitiveness	Facilitating the sensible flow and increasing the value of state-owned capital
Mode of Control	Strategic control	Financial control
Main initiatives	<ul style="list-style-type: none"> <li>-Downsizing the headquarter</li> <li>-Decentralizing power to subsidiaries</li> <li>-Integrating business sectors and enhancing operating efficiency</li> </ul>	Launching new funds (China State-owned Venture Capital Fund / China SOE Restructuring Fund)
Pilot enterprises (Central level)	2014: COFCO & SDIC 2016: Shenhua Group, China Baowu Steel, China Minmetals, China Merchants Group, China Communications Construction and China Poly Group.	Chengtong Holdings Group & Guoxin Holdings Group

# Mixed Ownership Reform

- Commercial SOEs in fully competitive industries
- Commercial SOEs in industries strategic to national economy
- Public service SOEs

Promote by categories

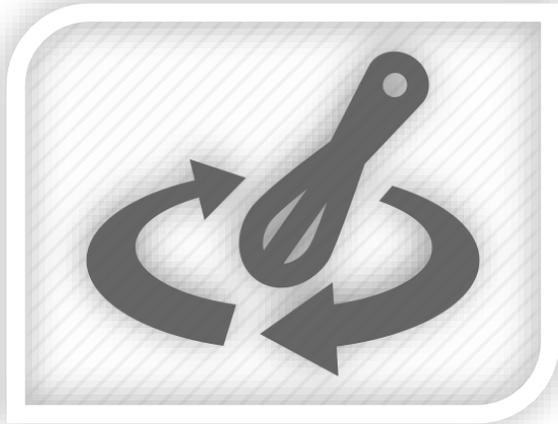
- Subsidiaries of central SOEs
- Group level of central SOEs
- Local SOEs

Promote by levels

- Private capital
- Collective capital
- Foreign capital
- PPP
- State-owned capital invest in non-state-owned enterprises
- Employee shareholding
- Preferential share and state special management share

Encourage various types of capital to participate

## How to mix ?



Open-ended reorganization

Overall or core asset listing

Employee shareholding

Funds

Strategic investors

## Who can mix ?



Defense

Power equipment

Hi-speed railway

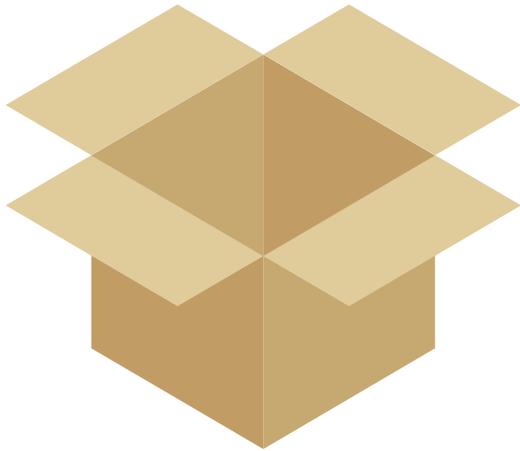
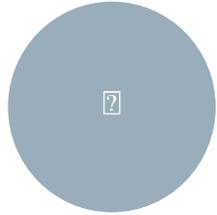
Railway equipment

Aviation logistics

Telecommunications

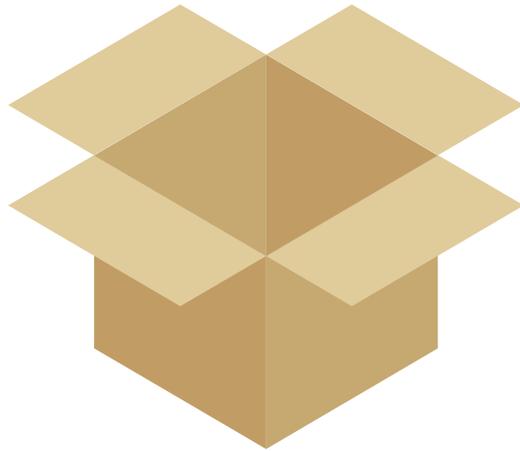
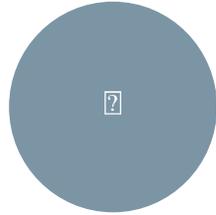
Finance

# Implications of Reforms for ADB



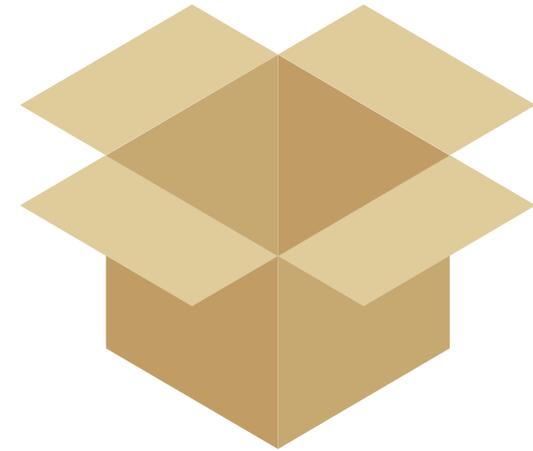
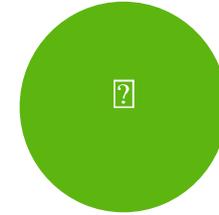
A strengthened SOE sector to work with

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New cofinancing partners and platforms

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More opportunities of PPPs

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**Thank you !**



How to apply lessons learnt from the PRC's reform experiences to other DMCs?

How to leverage SOEs for social and environmental change?

Identify systemic challenges and future reform directions in this sector