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ShenZhen Innovation and Development Institute

Newsletter

CONSTRUCTIVE · INDEPENDENT · COLLABORATIVE

Events

Sen WEI, professor of School of Economics and director of Institute of Economic Thoughts and History, Fudan University, joined the Public Lecture Series on October 18th, explaining the slowing growth rate of Chinese economy. **Read more**

Wen HAI, deputy director of the academic committee of Shenzhen Innovation and Development Institute (SZIDI), joined the Public Lecture Series on September 15th, delivering a positive message about the future prospects of Chinese economy. **Read more**

Jiahua PAN, Chinese environmental ecologist of Chinese Academy of Social Sciences Institute for Urban and Environmental Studies, joined the Public Lecture Series on September 7th, 2017, with a speech on the Paris Agreement and sustainable development in China. **Read more**

Kang JIA, member of member of the national committee of CPPCC, chief economist of China Academy of New Supply-side Economics and former head of Institute of Financial Science of Ministry of Finance, joined the Public Lecture Series on August 22nd, with a speech on *Financial and Taxation Reform for Modern National Governance.* **Read more**

Recent Activities

China Reform Report Annual Conference held in Japan
The annual conference of China Reform Report was hosted by Shenzhen Innovation and Development Institute (SZIDI) was held in Hokkaido Japan in the afternoon of July 29. Section authors of the Report Xia CAI, Guoying DANG, Yansheng ZHANG, Shuyu QI, Meng LI, Xin XU and Yuwen DENG participated in the conference. **Read more**

Senior Advisor of SZIDI, former Party Secretary of Shenzhen Municipal Committee Hao LI visited SZIDI
Senior Advisor, former Party Secretary of Shenzhen Municipal Government Hao LI, former vice mayor Chuanfang LI, former member of the Standing Committee of Shenzhen Municipal Committee Hanqing SHAO visited Shenzhen Innovation and Development Institute on August 29th. **Read more**

Chatham House Visited SZIDI
Tim Summers, senior consulting fellow of Asia Program of Chatham House visited Shenzhen Innovation and Development Institute on August 29th. **Read more**

SZIDI Visited Asia Society Hong Kong
Shenzhen Innovation and Development Institute visited the Asia Society Hong Kong office on September 20th. **Read more**

Shenzhen New Social Stratum Association visited SZIDI
Director of Shenzhen New Social Stratum Association Shaofu MA and a group of experts visited Shenzhen Innovation and Development Institute on October 13th. **Read more**

China Reform Monitor

Priorities in SOE reform after the 19th CPC Congress: Retreat of SOEs

Siping ZHANG
Shenzhen Innovation and Development Institute

Priorities in SOE reform after the 19th CPC Congress: Retreat of SOEs

The past five years have witnessed improvements in these two aspects of SOE reform. De-leverage in steel and coal industries for instance has improved the situation of SOEs clustering in smokestack industries; While the mixed-ownership reform such as what China Unicom performed recently has signaled meaningful changes diversifying the ownership in SOEs.

I believe that the 19th CPC Congress will continue to emphasize reform, furthering the

SOEs. I therefore suggest that we should prioritize the former as it is an integral part of the supply-side structural reform, and that it has already received wide support from the government. Besides, exit of Zombie companies and laggard SOEs in competitive industries are critical to China's economy. In the wake of the adjustments in the scale and presence of SOEs in the economy, we can then turn to deepening reforms in remaining SOEs, modernizing the corporate structure and increasing competitiveness. In this order, SOE reform can be more effective.

Bankruptcy, exit, restructuring, introducing strategic investors, transferring of stakes, employee stock ownership and so on are measures to adjust the scale and shares of SOEs in China's economy. The involved SOEs can be divided into four categories:
-Zombie companies in overcapacity industries such as coal, steel, building materials and raw materials industries should exit, in response to the supply-side structural reform. Now that the prices of coal and steel rise up again thanks to the exit of a number of companies in these industries, many SOEs are likely to hesitate, or even abandon the reform plan. It is thus important to keep on the good work of exit of these zombie companies. Otherwise, there would have to be another round of supply-side structural reform soon.
-SOEs that are not competitive in business, logistics, service, trade and manufacturing industries should adjust their priorities and exit the market.
-SOEs that are profitable but do not fit in the national development strategy should exit the market. These SOEs include those operate in the real estate market. Given the piled-up bubbles in the real estate market and the skyrocketing housing prices, SOEs should take the initiative in response to central government's call to control the housing prices.
-SOEs involving in industries with high risks, such as the medium-small SOEs in financial industries that have a tradition of systematic risks, and SOEs in hi-tech industries that require large investments and bear high risks, should opt to exit the market.
Of course, the reform plans of SOEs are contingent on their own situation. The distribution and utilization of state assets should focus more on the provision of public goods and on industries associating with national strategy.

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Key Words

国有资本布局调整 **guó yǒu zī běn bù jú tiáo zhěng**

Revamping the Distribution and Allocation of State Assets

SOEs in China have shown an overdependence on heavy industry and construction, which are neither efficient nor able to meet the demand in emerging service sectors. Revamping the distribution and allocation of state assets is thus an integral part of the reform plan launched in 2015, distinguishing SOEs with different functions, and re-orienting their priorities accordingly. In practice, laggard SOEs face bankruptcy, restructuring, exit, introducing strategic investors, transferring of stakes and so on, as a way to increase their competitiveness and revitalize the debt-ridden state economy. The primary approach so far has been government-orchestrated mergers between SOEs.

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