Top-Down Control: SASAC and the Persistence of State Ownership in China

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It is well known that China made its initial transition to a market economy without privatization. However, as transition continued, privatization gradually became an increasingly important component of the policy mix. Between 1994 and 2000, the peak years of a massive downsizing of the state sector, there was significant privatization. Virtually all the collectively-owned township and village enterprises were privatized after the mid-1990s. Large scale state firms engaged in "partial privatization" by listing on stock markets in China and abroad. Moreover, since the end of the 1990s, private business has been legitimized and given substantial regulatory protection. Thus, until recently it was possible to view China as undertaking a transition process that included a cumulative and steadily increasing shift toward privatization.

That view is no longer tenable. In the past few years, amidst a strong recovery in profitability at state firms, government ownership in the economy has stabilized. A tier of large, centrally government-controlled firms has been demarcated and a rationale for continued public ownership articulated. An ownership structure has emerged that in some respects resembles the mixed ownership model of some European countries, such as France, in the 1960s, in which the most important national firms are publicly owned. Attention has shifted to governance of state-owned firms. A powerful new body, the State Asset Supervision and Administration Commission (SASAC) has gained control of the state enterprise reform agenda. SASAC's vision contains much that is attractive, and that would improve governance, transparency, and ultimately performance of publicly-owned firms. However, SASAC also sees its mission as maintaining and increasing the value of public assets. Moreover, as the government agency charged with exercising the authority of ownership, but without a privatization mandate, SASAC understandably interprets "reform" in a way that is consistent with its own bureaucratic interests, which include maintaining a large state sector. At the level of the central government, a large state sector will be a characteristic of the Chinese economy for the foreseeable future. Whether this turns out to be a long-run characteristic of the Chinese economy will depend on the degree of success attained in implementing the current SASAC initiatives.

In this paper, I review the main features and aspirations of SASAC, focusing on central government SASAC. The first section considers SASAC's founding mission as the agency that exercises the government's ownership rights. The second section considers the vast difference that exists between a common-sense understanding of that mission and the actual situation. The following section exemplifies the gap between theory and reality by considering power over personnel. The paper then moves to its primary focus on the nexus of issues relating to control over profits and corporate governance. I emphasize the fact that SASAC is at the beginning of an ambitious effort to restructure the current system of state ownership. If SASAC is successful, it will enhance its own stature and create a more modern public sector, but this path might well be an alternative to further privatization of the economy.

1. SASAC and the Central Government Sector

In 2003, the Chinese government established a major new institution to exercise government ownership. Since 1998, most of the industrial ministries had been abolished or downgraded, and the previous effort to establish an Asset Management Agency, subordinate to the Ministry of Finance, had conspicuously failed. The new arrangement marked a major transformation both in the formal definition and allocation of ownership rights, and in the procedures through which such rights were to be exercised (See Appendix 1 for details). The basic charter for the new asset management system was the 2003 "Interim Regulations on the Management of Enterprise State-owned Assets." [1] The regulations clarified the fact that the State Council, as the central government's executive organ, has the authority to exercise government ownership, and that the People's Governments at the provincial level have the same authority. Central SASAC was established in the Interim Regulations as a special administrative unit (or special "public service unit" *shiye danwei*) directly subordinate to the State Council, to fulfill the responsibility of investor; and local governments were directed to establish their own directly subordinate special administrative units (Article 12). These SASAC-type agencies (eventually, all the local agencies became "SASACs" as well) are not to carry out public or governmental functions; and other government departments are not to interfere in management of state assets (Article 7). The first positive achievement of SASAC was thus the clear demarcation of central and local governmental ownership. In line with this, central SASAC published a list of 196 specifically named centrally-run SOEs over which it exercise direct ownership. This list, reduced to 169 through consolidation and merger by September 2005 (See Appendix 2), marked the limit of central SASAC's authority. It was unprecedented to state that any SOE not named was outside central SASAC's ownership and control, and therefore under local government authority.

Central SASAC did not hold on to a large number of firms, but, as the Tables show, those firms were the largest and most highly capitalized firms in the state sector. Central SASAC in 2003 accounted for 17% of all state-enterprise workers, but 29% of state industrial enterprise workers (these figures include traditional SOEs as well as corporations in which the state has a controlling interest). Since these are in relatively capital intensive sectors, central SASAC controls 43% of industrial assets. In addition, SASAC exercises government ownership of all three national telecom providers. Since firms in these sectors frequently possess some type of market power (natural or regulatory), they are even more profitable than they capital-intensive. Central SASAC firms earned 65% of total state enterprise profit in all sectors (not just industry). It's a great deal of money: 488 billion yuan in 2004, and 628 billion in 2005, or 3.4% of (revised) GDP in the latter year.[2] The most important sectors under central SASAC's

[1] State Council, "Interim Regulations on the Management of Enterprise State-owned Assets," May 27, 2003, http://news.xinhuanet.com/fortune/2003-06/04/content_905211.htm

[2] Zhao Hongmei, "The era in which state enterprises eat the cake themselves is over; but how to divide the feast is still troublesome," *Zhongguo Jingji Shibao [China Economic Times]* March 3, 2006, at http://www.ce.cn/macro/gnbd/yqdt/200603/03/t20060303_6255353.shtml.

control were petroleum and refining, metallurgy, electricity and military industry, plus telecommunications. Together, these five sectors accounted for two-thirds of central SASAC's workers and three-quarters of the value of its assets. Thus, after a period of dramatic change in the state sector, the persistence of the large-scale, heavily capitalized and concentrated, centrally controlled sector provides a significant element of continuity.

2. The Huge Gap Between Reality and SASAC's Vision

The two most important attributes of ownership are use rights and income rights. In spite of SASAC's impressive authority, it is fair to say that it does not fully enjoy either use rights or income rights over state firms. For use rights to be effectively deployed over a state corporation, SASAC must have the ability to appoint managers, but the power to appoint in a Communist Party state is dominated by the Communist Party. The Communist Party manages cadres (managerial personnel) throughout the society, and while SASAC has a great deal of statutory personnel power, it cannot be said to effectively exercise that power. Control over income is even less ambiguous: SASAC currently does not receive any after-tax profits from state firms. Indeed, the Chinese state does not receive profits from state firms. The following sections discuss these features of the Chinese economic system.

3. Managerial Appointment

SASACs at the central government and local government levels indeed theoretically have the right to appoint SOE managers and members of the Board of Directors.[3] This is established in Article 13 of the Provisional Regulations, and each provincial SASAC has a similar article (Appendix 1). In each case, the regulation specifies that SASAC controls personnel appointments "in accordance with legally designated procedures." However, in practice, this is an extremely sensitive and complex issue. The Communist Party of China in fact exercises nearly complete control over personnel decisions throughout the state sector. This system, copied from the Soviet Union but still fully in use in China today, requires Communist Party committees to make appointments to a namelist, or nomenklatura of professional and managerial positions. It is not an exaggeration to say that the political power of the Communist Party is based on its control of job appointments. Along with control of speech and publishing ("propaganda"), control of human resources is what the Communist Party does, and how it exercises its political control.

Communist Party personnel control used to be cloaked in secrecy. Now, however, as the Communist Party tries to modernize its governance and establish a new legitimacy for itself, it has begun to reveal specific procedures about personnel management. In the case of SASAC at the central and local level, this shows that the Communist Party remains in ultimate control of managerial personnel, but struggles to coordinate this power with the professional expertise which it seeks to foster in the SASAC

[3] In addition, SASACs have a special responsibility to appoint Supervisory Board members.

administrations. Central SASAC shares appointment power with the highest ranks of the Communist Party. Unusually, specific details of the arrangements have been published for the 53 largest enterprises, who are so important that the top manager and chairman of the Board are appointed by the Communist Central Committee Organization Bureau, and these will continue to be appointed directly by the party. These positions are simply too important, as patronage posts and controllers of resources, to slip out of the hands of the Party. The Party is directed to make these decisions "in coordination with the Communist Party Committee within SASAC." On the other hand, the SASAC Communist Party Committee itself is to manage the vice-CEO level, which means concretely through the First Personnel Bureau of SASAC. Managerial positions in the other 143 enterprises are to be managed by the Second Personnel Bureau of SASAC.[4] More generally, it is fair to say that the Communist Party exercise managerial control, but increasingly attempts to work through the SASAC organization.

At local SASACs, a variety of ad hoc arrangements are made to coordinate decision-making. In Shanghai, a single individual, Qiang Sixian, is simultaneously Director of Personnel for the City of Shanghai and head of the Party Committee within Shanghai SASAC (as well as a member of the Municipal Party Committee).[5] When Qiang speaks about the importance of human resource management, he is careful to emphasize "the principle that the Party manages human resources."[6] In Guangdong Province, the enabling legislation is unusually specific and concrete, stating that Guangdong SASAC will take over from the Provincial Communist Party Organization Committee the appointment of SOE directors, managers, and Party and Disciplinary Committee members. However, even in this case, an exception is made for the Chairman of the Board of Directors and the Party Secretary of the SOE, implicitly acknowledging that those decisions will continue to be made directly by the Provincial Party Committee.[7] On the other hand, the Hebei enabling legislation specifically states that SASAC will appoint Managers of traditional SOEs and Chairman of the Board and Board members for state companies; as well as nominate candidates for managers to the Board for Board-governed companies.[8]

When Central SASAC issued its guidance to local SASACs urging them to set up SASACs at the immediately subordinate municipal level, it specifically instructed them to "uphold the principal the Party manages cadres [i.e., managers], perfect the cadre management system, and guarantee that the local party committee strengthens its

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[4] Communist Party of China, "Party Center Notification on a Few Matters Relating to the Establishment of State Council SASAC," March 24, 2003, in *2004 Zhongguo Guoyou Zichan Jiandu Guanli Nianjian [China State-owned Assets Supervision and Management Yearbook]*. Beijing: Zhongguo Jingji, 2004. P. 99. See also Ju Jinwen, "An empirical analysis of the incluence of capital markets on the reform of state-owned enterprise property rights," at www.fdi.cov.cn/common/info.jsp?id=CENSOFT0000000011677 for discussion of the evolution of these arrangements.

[5] "The two Commissions, Municipal and SASAC, call a System-Wide Meeting on Human Resources," November 16, 2005, at http://www.shgzw.gov.cn/gb/gzw/xxzh/gzdt/userobject1ai37646.html

[6] Ibid.

[7] http://www.gdgz.gov.cn/sub/index.jsp, "Responsibilities of Guangdong SASAC,"

[8] http://www.hbsa.gov.cn/show.asp?id=1687, Approved October 21, 2004, by the 33rd meeting of the Provincial Government Standing Committee. Effective December 1, 2005. Article 13.

management of the responsible personnel at important keypoint SOEs in the locality."[9] This statement demonstrates rather unambiguously the subordination of SASAC to the Communist Party in all specific personnel decisions.

SASAC has a very important role in defining the scope of permissible incentive mechanisms. In this sense, suggesting and diffusing effective incentive mechanisms is part of SASAC's mission to spread reform and increase efficiency; while defining the limits to permissible incentive systems is part of its mission to prevent asset-stripping. SASAC exercises this mission by professionalizing the management process, introducing market-based competition for managerial jobs, and taking other initiatives (see below). However, all these initiatives develop in the context of a system in which the ultimate say in the development of an individual's career path is retained by the Communist Party. Needless to say, that imposes limits on the incentive characteristics of whatever mechanisms SASAC introduces.

4. Control Over Profit

The surprising fact that the Chinese government does not collect after-tax profits from the enterprises it owns was established in 1994, when the new tax and fiscal system went into effect. At the time, state firms were bleeding red ink, and total profits were extremely small (Figure). When the new tax system, it was simply decreed that firms had the right to retain after-tax profits. Thus, if a firm is listed on the Shanghai stock market, it pays dividends to individual shareholders and to legal entities (including other state firms and some state agencies) that hold its shares. However, these dividends never find their way into the state budget. SASAC would like to change this, and become the government agency which receives and re-invests at least a portion of those dividends.[10]

4A. Where Does the Profit Go? An Introduction to the Middle Layer

In fact, much of the profit generated by SOEs goes to an intermediate level of organization that lies between the SOE and SASAC. It is sometimes said that China operates a "three level" system of state enterprise management. In this formulation, there is the enterprise (at the base level), an investment or holding company (in the middle), and an ownership agency, SASAC (at the top). In fact, this formulation gives the architecture more clarity and uniformity than it actually possesses. This middle layer of

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[9] SASAC, "Guiding Opinions on Setting up State Asset Supervision and Management Organs at the Level of the Municipal (Prefectural) People's Government," November 1, 2004, at http://www.gov.cn/zwgk/2005-08/15/content_23237.htm

[10] Zhao Yunqi, "State capital management budget would control enterprise lifelines," *Zhongguo Caijingbao [China Finance Daily]*, September 23, 2005, at http://www.cfen.cn/loginCt/pageprocess?pageurl=bzbm/2005-09/23/content_166542.jsp; Cheng Mingxia, "State capital management budget elicits strategic behavior on all sides; SASAC and MOF still have disputes," *Jingji Guanchabao [Economic observer]*, February 20, 2005, at http://finance.sina.com.cn/g/20050220/10431368996.shtml; Zhang Yuzhe, "SASAC and the big firms maneuver strategically; 400 billion in central enterprise profits may be redistributed," *Caijing Shibao [Finance Daily*]. January 25, 1005, at http://media.163.com/05/0125/15/1AUV61930014184H.html

the bureaucracy is an extremely complex ecology. It is characterized by multiple diverse organizations that run the gamut from worthless shell companies to rich and powerful conglomerates.

From the national standpoint, this means that SASAC presides over not so much a portfolio of enterprises as a grab-bag of semi-bureaucratic intermediate agencies. The precisely delimited group of 196 SOEs that was placed under central SASAC's authority at its creation is in many respects misleading. Quite a few of these "enterprises" were in fact slightly transformed versions of the old industrial ministries, now made into large holding companies that in some cases have hundreds of subordinate enterprises. As Appendix 2 shows, the list of 169 enterprises over which central SASAC has jurisdiction as of mid-2005 is extremely diverse, but scarcely a single listing is straightforward. One large category consists of the large ministerial corporations, many of which are linked to the military industries. Another large category is successful quasi-commercial enterprises, including both China Merchants and China Resources, but also including the large Beijing-based central government trading companies, such as China Grain and Oils Group. In many case, central SASAC presides over an ownership pyramid that was two or three layers deep, and sometimes more. Counting all of the companies controlled in this way, central SASAC certainly owns several hundred firms. But there are many layers between SASAC and those listed companies. This multi-layer structure presented an obvious challenge to SASAC in its effort to exercise its ownership rights. It was sometimes difficult for SASAC to trace the ownership chains involved. Multiple subsidiaries presented multiple opportunities for related-party transactions with potential loss of government revenue. Subsidiaries were sometimes engaged in businesses that bore scant relationship to that of the parent corporation.. In order to gather information on these complex relationships, central SASAC has sent out annual inspection teams (usually in the third and fourth quarters). A major focus of these inspection teams was to sort out the relationship among central firm subsidiaries. Unfortunately, little information is available about what these inspection teams found, or how they handled the situations discovered.

These intermediate organizations are easiest to analyze in conjunction with China's stock markets, which have been well studied.[11] The stock market listed firms are the bottom tier of a vast economic empire. Central SASAC controls 168 of the largest companies listed on the Chinese exchanges in Shanghai and Shenzhen, and they account for 33.8 percent of domestic stock market value (It is pure coincidence that the number of the listed firms almost equals the number of firms directly subordinate to SASAC: there is no relationship between the two numbers: some SASAC firms have multiple

[11] Green, Stephen, "Enterprise reform & stock market development in mainland China." Frankfurt: Deutsche Bank Research. March 25, 2004. Green, Stephen. *The Development of China's Stock Market, 1984–2002*. London and New York: RoutledgeCurzon, 2004. Walter, Carl and Fraser J. T. Howie. *Privatizing China: The Stock Markets and their Role in Corporate Reform*. New York: John Wiley & Sons, 2003.

listed vehicles, and most have none.) Central SASAC companies also account for 18 percent of the value of the Hong Kong stock market.[12]

As has been widely recognized, government ministries created attractive candidates for stock market listing by carving out the attractive productive assets they possessed, and stripping them of their burdensome liabilities (social services and bank debt). This ensured that listing candidates were presentable, and that listings were successful. But in order to quickly implement this practice, virtually all listed SOEs left behind significant assets in a non-listed parent firm. Thus, in China's stock market today, most listed companies have parent firms that are also state-owned firms. Those parent firms, typically labeled something like group companies (*jituan gongsi*), or investment companies (*touzi gongsi*), are much less transparent than are the listed companies. These parent companies in the past spun off listed firms but, in most cases, retained controlling ownership stakes. These parent firms do harvest profits from their subsidiaries. Also, in similar fashion, some local governments use their local SASACs to harvest profits from local firms (Shenzhen, for example, does this.) Dividends are paid up to this middle layer, which currently has the authority to control and reinvest these funds. This creates an enormous scope for non-transparent related-party transactions between parent and subsidiary, which were linked by multiple ties and numerous types of business transactions. The resulting lack of transparency has been an enormous drag on the Chinese stock market for years. Indeed, some of these corporate parents are utterly dependent upon their listed subsidiaries to pay their bills (including paying interest on debt assumed from the subsidiary). In order to legitimize this situation, the parent companies were generally accorded a status as "delegated investment agency" (*shouquan touzi jigou*). In this way, some normality was given to the fact that these corporations collected dividends from their subsidiaries, but did not pass on dividends to their own owner, the state.

At one extreme, there are parent firms that now consist of nothing more than a collection of junk assets that were left over when all the valuable assets were packaged into a firm that could be listed on the stock market. In the petroleum industry, virtually all the valuable oil and gas producing and refining properties were put in the listed vehicles, while most of the money-losing services and welfare firms were put into "successor" (*cunxu*) or "left behind" firms. For example, CNOOC (the China National Offshore Oil Corporation), after listing had 1,000 employees in its listed firm, but 16,000 employees in left behind firms. The former was highly profitable, while the latter were significant loss makers.[13] The parent CNOOC group company used the dividends from the profitable listed company to offset the losses of the left behind firms. This pattern was common in many sectors.

[12] Xinhua News Agency, "SASAC Adopts Four Measures to Accelerate the Listing and Reform of Central Enterprises" (reporting on the December 14, 2004, conference of central enterprise CEOs), http://chinaneast.xinhuanet.com/2004-12/14/content_3389021.htm.

[13]Xinhua Agency Online, "Making bad assets good—a veritable record of how CNOOC revitalized its successor companies," August 22, 2005, at http://www.sasac.gov.cn/2005ysy/ysy05/200508230199.htm

However, these middle level firms are not necessarily poor and economically dependent. Quite the contrary, since the middle level firm still controls both the profitable and non-profitable firms, the middle level firms often operate with enormous discretion. These firms were carved out of the ministries during early rounds of reform. They have strong networks of cooperating bureaucrats and officials, and they are not very transparent. Particularly following the revival of state sector profitability, some of these organizations are extremely rich and powerful. The state companies under central SASAC's purview include, for example, the State Electricity Grid and the big Electricity Companies, some of the biggest and least transparent companies in China, and military-linked companies like Baoli and the Nuclear Industry Corporation. These companies have long standing links to top Communist Party officials. They have power as well as money. This middle layer of the state economy is the least transparent and least reformed part of the state economy.

Generally speaking, the layer of intermediate holding companies and group companies represents the relatively unreformed part of the Chinese state-owned economy. From below, many firms have listed on Chinese stock markets or abroad, and have had to set up Boards of Directors, comply to a certain extent with disclosure requirements, and clarify corporate governance. From above, SASAC has been given a mission as an "ownership agency" which, whatever its shortcomings, tends to drive it in the direction of maximizing the value of the state's ownership stake, and thus pushing for more productive and competitive companies. In the middle, however, is a vast, tangled mass of economic and bureaucratic relations. To be sure, these are no longer the purely bureaucratic relationships of the planned economy. They have been largely "commoditized" by the influence of the market economy. But the governance procedures and information disclosure are still generally non-transparent. The dividends and after-tax profit of SOEs are generally remitted upward into this intermediate layer.

In theory, these intermediate level entities have been going through the same process of corporatization and restructuring that other state firms have been undergoing since the mid-1990s promulgation of the Company Law. However, the process has been slow and extremely uneven. At this level, corporate governance reform virtually ground to a halt for several years after 1998. In that year, government reorganization led to the abolition of most of the industrial ministries, and new group companies (*jituan gongsi*) and investment companies companies (*touzi gongsi*) were being set up quickly and in large numbers as a replacement. It was hard to find qualified people to serve on boards, and then-Premier Zhu Rongji simply declared that these intermediate bodies did not generally need to set up Boards of Directors. Even though such Boards were a clear requirement of the Company Law that was already in effect at that time, progress on establishing Boards ground to a near-standstill. The result was that authority relations and distribution of profit remained relatively unreformed.

Reformers would like to see more progress in this tier of the economy. The October 2003 Third Plenum of the Communist Party endorsed the development and consolidation of joint stock corporations as the main thrust of state enterprise corporate governance reforms. The concrete content of this endorsement was ultimately provided by SASAC. SASAC began to push forward on improving corporate governance at those joint stock corporations that already exist (appointing independent directors, clarifying director responsibilities, etc.) and also by setting up new joint stock corporations with a modicum of transparency in this middle tier of firms. Ultimately, the objective would be to convert the entire state sector into a group of companies working under modern corporate governance procedures. SASAC has been working in this direction since 2003. But of course the issues of corporate governance are also inevitably entangled with the question with which we began: who gets the money?

4B. The Capital Management Budget

The mechanism that SASAC has seized on to transform the situation with respect to SOE profit is a state capital management budget (*guoyou ziben jingying yusuan*). This would be a budget, compiled by SASAC, with revenues derived from state firm profits and asset sales, and expenditures devoted to investment and firm restructuring. SASAC, had been mulling the idea of some kind of capital management budget since birth. After the October 2003 Communist Party endorsement, SASAC began to get serious, and spent much of 2004 studying local experiences and developing concrete proposals.[14] At the end of 2004, the Ministry of Finance (MOF) approved in principal the concept of a capital management budget, and the possibility that it might be managed by SASAC, on the condition that the capital budget remained formally a part of the government budget and under the ultimate responsibility of the MOF.[15] Under a state capital management budget, some portion of state enterprise after tax profits—either decided by the Board of Directors as distributed profits, or determined by a formula (perhaps 20% of profits)—would be remitted to government ownership agencies. This agreement in principle kicked off a prolonged process of bargaining and negotiation about what form such a budget would take. The most important principals were SASAC and MOF, as well as the Finance and Economics Committee of the National People's Congress.

The idea of a capital budget, in one form or another, has been on the table since the 1994 fiscal reforms. Those reforms envisaged a dual-budget system, in which current expenditures and capital expenditures were separated. For several years, such separate budgets were published. But since the capital budget really didn't correspond to actual decision-making processes in the Chinese bureaucracy, it gradually fell into disuse. In recent years, the national government has spent relatively little budget funds on investment, preferring to delegate investment responsibilities to middle tier companies and to the banking system. Some local governments did collect state enterprise profits and revenues from asset sales, and they would typically use these funds for a fairly broad array of investment-related uses. For example, Shenzhen used the revenues from its firms to build a travel business conglomerate, channeling money through their local SASAC.[16] Other cities used their capital income in a variety of ways.[17]

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[14] Zhao Yunqi, "State capital management budget;" Cheng Mingxi "State capital management budget elicits strategic behavior."

[15] Yunnan SASAC, "The disposition of dividends on state-owned capital is still awaiting new ideas," November 11, 2005 at http://www.yngzw.gov.cn/wwwroot/gzyw/804.aspx

[16] "Shenzhen Hostpitality Industry has a new force; Jinjiang Hotel Group establishes Southern China Bureau," at http://www3.shenzhenair.com/IndustryNews/showTopicDetail.sh?topid=3914

SASAC understandably pushed for a large share of enterprise after-tax profits, and broad latitude in using those funds. MOF endorses the idea of state firms paying profits to the state, but of course would prefer that those funds be paid directly to them, i.e., directly into the state budget. SASAC, after all, is a special public service unit (*shiye danwei*) and not, technically, an arm of government. It therefore doesn't have the legal authority, under the "Budget Law," to compile a fiscal or quasi-fiscal budget.

Negotiations and preparatory work went on through much of 2005. By the end of the year, the various parties were in enough general agreement that the proposal was more or less officially released.[18] Other influential policy-makers, including central bank governor Zhou Xiaochuan, announced their support for the idea that state firms should pay dividends to the government.[19] In early 2006, there were many reports that SASAC was compiling the first ever capital management budget for use in 2006. Moreover, these reports repeatedly said that the MOF would have broad authority over a general capital management budget, but the SASAC would compile a more detailed budget for central enterprises under its authority. This would give SASAC de facto control over the actual revenues, while maintain MOF's ultimate authority over the budget.[20] Indeed, SASAC hoped to present this year's capital management budget for approval at the National People's Congress meeting in March 2006. However, it was not to be. The other agencies, reportedly including the MOF in the first rank, still objected to SASAC's concrete proposals, and in fact, no formal announcement was made. Premier Wen Jiabao's Government Work Report had a single phrase referring to the "completion of the system of capital management budgets," thereby creating the misleading implication that such a system already existed.[21]

At the end of May 2006 came a report that agreement had finally been reached between SASAC and MOF.[22] Although this agreement had not been officially confirmed as of this writing, the specificity of the outcome and the outlines of the bargaining solution appear authoritative. According to this report, SASAC gained the authority to be

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[17] Zhu Liangjun, "Five cities each have exceptional experiences to report," *Shenzhen Tequbao [Shenzhen Special Zone Reporter]*, July 15, 2005, at http://www.sasac.gov.cn/gzyj2/200507150022.htm

[18] Duan Xiaoyan, "SASAC will compile state capital budget; requiring central enterprises to remit dividends," 21 Shiji Jingji Baodao (21st century economic herald), December 31, 2005, at http://www.southcn.com/finance/nfcm/21sjjjbd/200512310055.htm

[19] Zhou Xiaochuan, "The return to capital in state-owned enterprises," December 11, 2005 talk at the conference on the twentieth anniversary of "China Entrepreneur" magazine. Accessed at http://www.sasac.gov.cn/gzyj2/200601130130.htm

[20] Liu Xiaowu, "Many experts debate whether the beginning of a state capital budget can truly end the period of excess profits of state firms," *Zhongguo Jingyingbao {China management}* February 19, 2006, accessed at http://finance.sina.com.cn/g/20060219/12372354455.shtml; "Li Rongrong says state capital income will primarily be used to offset the costs of state enterprise reform," *Dongfang Zaobao (Shanghai) [Eastern Morning News]* January 25, 2006, http://finance.163.com/06/0125/06/289TR01F00251GR3.html; Zhao Hongmei, "The era in which state enterprises eat the cake themselves is over."

[21] Wen Jiabao, Government Work Report, March 5, 2006, http://news.xinhuanet.com/misc/2006-03/15/content_4305660.htm p. 19 (Section 6: Push Reform and Opening a Step Further)

[22] Liu Xiaowu, "The payment of dividends by state firms is nearing resolution; SASAC and MOF have reached agreement," *Zhongguo Jingyingbao [China management]*, May 28, 2006, at http://news.hexun.com/1693_1661127A.shtml

the lead agency in drawing up the state capital management budget, which would be overseen by MOF and incorporated into the overall budget under MOF's control. In return, SASAC had to surrender control of part of the revenues. According to this negotiated outcome, SASAC would receive a portion of revenues for state enterprise restructuring and investment, while MOF would receive a portion for social security and other public finance needs.

This outcome illustrates the complex forces affecting this policy decision. First, since there is a great deal of money on the table, entrenched interest groups are naturally fighting hard over this policy. The MOF-SASAC competition is more exposed to the daylight, because both these agencies have strong and legitimate public interests on their side. Less visible are the interest groups maneuvering to block the proposal because they simply do not wish to lose control over large sums of money. Second, the economic health of state enterprises still varies widely. While some SOEs are flush with cash, others have little revenue to spare. It is inconceivable that SASAC would suddenly take over profits from all of these. Inevitably, the program will start with the richest firms, and those that are most susceptible to SASAC's influence. In practice, this means energy and telecom. These firms have the money and are reasonably well run, and their profits are highly sensitive to government regulation and policy. They therefore have little choice but to comply with the new system. In turn, SASAC has been forced to accept the fact that this year, implementation of the budget will be only partial and experimental; limited to these few firms; and differentiated according to monopoly and competitive sectors. Public utilities will likely be exempted altogether.[23] Of course, distributed profits are paid to the owners of a firm only if the Board of Directors votes to distribute dividends, which will not automatically occur. But if the Board of a state firm votes to distribute, after the adoption of the capital budget, some of the distribution will go to the capital budget, and to the MOF. Moreover, perhaps some influential guidelines would be adopted, influencing Directors to pay dividends.

Third, there is a great deal of concern that this control of money could be used by SASAC to create too much control over firms, effectively rolling back the achievements of almost thirty years of expanding enterprise autonomy. The reported outcome of the SASAC-MOF bargain reflects these concerns. If SASAC were given undivided control over revenues, there are fears that SASAC would simply turn itself into a super-agency, launching all kinds of new initiatives. Local SASACs do not feel particularly constrained in spending the profits they harvest, and often spend them for new investment. In Chongqing, at the beginning of 2005, local SASAC used their revenues to purchase shares in a series of companies linked to the bankrupt private Delong group. Chongqing SASAC argued that this was a wise move preventing ripple effects from a local bankruptcy, but critics argued that it was an unwarranted expansion of power and public ownership.[24]

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[23] Liu Xiaowu, "Payment of dividends nearing resolution."

[24] Xia Feng, "Chongqing SASAC buys back shares of two subsidies of Xianghuozhu,: *Diyi caijing ribao [No. 1 finance daily]* January 17, 2005, at http://finance.sina.com.cn/stock/s/20050117/02561297916.shtml

5. SASAC's Vision

SASAC has a broad and reasonably consistent vision of the future. In essence, that vision involves the conversion of the entire state sector into a modern, reasonably transparent system of corporate governance. All firms, including the entire Middle Tier, should be corporatized, and ultimately, virtually all should be listed. Boards of Directors should be greatly strengthened, and have complete authority for managerial appointments and compensation.[25] SASAC's ownership stake would be exercised in a more professional way, probably acting through several real investment companies. The most commonly heard model for such investment companies is Temasek, the Singapore government's investment company. Under this vision, SASAC, or its investment companies, would sell significant stakes in these companies, creating liquid share markets. Thus, SASAC's vision of state ownership, that is should "both advance and retreat" in specific sectors, would become a flexible investor's credo, rather than an ideological straightjacket. Managerial compensation within the corporate sector could be linked to stock market values, including through the grant of stock options (the legal foundation for which was created in 2005). Government ownership would become efficient and transparent. In the process, SASAC officials themselves would become sophisticated, prestigious and presumably well-remunerated investment professionals.

Even assuming the success of SASAC's most recent initiatives, there is still an enormous distance between SASAC's vision and contemporary reality. But most of the changes in corporate governance in China today can be usefully placed in the context of SASAC and its vision. This is particularly useful given the diversity of conditions within the middle tier, and the resulting fact that different types of policies, directed at different targets, are in evidence with different companies. One important strand of current policy is strengthening existing Boards of Directors. Here, an obvious front-runner and model is Baoshan Steel Company, widely viewed as one of China's best-run corporations. Baoshan Steel (Baosteel) recently added two independent directors to its Board, including one from Hong Kong and one from Singapore.[26]

More broadly, SASAC would like to gradually eliminate the system by which firms are listed on the stock market by non-listed parent firms that retain a portion of their total assets. That is, SASAC would like to see "comprehensive listing" (zhengti shangshi), in contrast to the partial listing of just some higher quality assets that characterized earlier stock market development. China's state-owned banks have all followed a practice of comprehensive listing, and all pay dividends to their state "owner," the Huijin Corporation. In this, the Huijin corporation is like SASAC in the financial

[25] How this is to fit with Communist Party control of managerial appointments is an insoluble question. One suggestion that is sometimes made is that the Communist Party will select a certain proportion of government-appointed Board members, and then stand down from the direct appointment of managers within the firm. There is no indication at this point that Chinese Communist Party leaders are willing to accept such a redefinition of the Party's role.

[26] "Outside directors installed at BaoSteel ," Xinhua English, January 28, 2006, at http://english.sina.com/business/1/2006/0128/63778.html; "Baosteel to Issue 5 Billion Shares" China Daily, August 13, 2004, at http://www.china.org.cn/english/BAT/103801.htm

sector, but it operates according to a set of procedures to which SASAC, at this point, can only aspire. A system of comprehensive listing would be a big step forward. It would reduce the scope for insider transactions on the Chinese stock market. It would bring some sunlight into the middle tier of Chinese state firms. But in practice, how is that to be achieved? It must be done individually, on a case by case basis, restructuring each firm according to conditions prevailing for that firm. In a few cases, where a subsidiary firm is healthy and already controls most of its strategic assets, the parent firm can simply be abolished. For example, this was recently the case with TCL. More generally, though, intermediate corporations, after having established Boards of Directors, will themselves need to be corporatized, and sometimes listed on the stock exchange. The first target for that is likely to be China Telecom. Here, the government has regulatory favors and licenses to grant, and these can ease the conversion process.

In a few cases, there are existing firms in the middle tier than can be developed as the precursors to the Temasek-like investment companies that SASAC seems to envisage. Two prime candidates are the Chengtong Group and SDIC. Both of these middle tier holding companies evolved out of the planning apparatus. They expertise was in transportation and construction projects, and so they already have a relative concentration of professional investment skills. However, both have a long way to go. At the opposite extreme, there are many successor, or left-behind, firms that simply need to complete the process of liquidation.

In many parts of the state sector, there are corporations that will vigorously resist the attempt to make them transparent and accountable. Ties to top leaders and their families, complex webs of influence and benefit, and spectacular cases of corruption are no doubt all hidden behind hard-to-follow corporate structures. Companies with military and national defense connections are some of the least transparent, possessing not only particularly close networks of cooperation but also a compelling national security justification that can fend off many transparency initiatives. Thus, there is likely to be enormous variation in the pace and visibility of corporate restructuring efforts among different sectors in the state sector. The process will be murky and uneven.

6. Conclusion

SASAC currently has control of the state sector reform agenda, and SASAC's vision for this reform is reasonably well understood. It does not include, for the foreseeable future, a significant push for privatization. It does portend a gradual process in which SASAC continuously restructures individual firms. In SASAC's view, in order to carry out this restructuring process, it needs resources. It needs resources in order to relocate workers, to shut down non-performing firms, and to make deals. Soon, it will have resources as it gains control over a share of firm profits and compiles its State Capital Management Budget.

This situation makes many people nervous. SASAC has articulated a vision of government ownership without any precise limits. Government ownership is justified in natural resource, natural monopoly, and national defenses sectors, but a market failure justification is not consistently invoked. More commonly, a “national interest” rationale is invoked. New guidelines about the appropriate scope of government ownership are just being issued by SASAC, but no big changes appear in store.[27] Individual firms of important technological creativity or capacity are explicitly included as legitimate objects of central government ownership (though this is rarely the case today in China). Thus, SASAC’s vision of a transparent, corporatized state sector in which value is maximized is not a pure one. Rather, it must coexist with a vision in which state ownership is used to achieve the different dimensions of the national interest. To be sure, in contemporary China, the national interest is generally seen as consistent with the maximization of the present discounted value of the future stream of national revenues, but certainly this is not always the case in individual situations. Moreover, SASAC still carries a large number of regulatory and quasi-regulatory functions. Thus, the fact is that the reform agenda is dominated by an increasingly powerful government bureaucracy that combines regulatory, strategic planning, and ownership functions. This understandably elicits concern.

Despite these concerns about expanding the power of a government bureaucracy, but the fact is that it is hard to see any other way forward to the comprehensive restructuring of the state sector in China. In the current political climate, large-scale privatization of large, centrally-controlled firms is simply not an option. If profits are bottled up within the group companies, they will be invested in lower (or zero) return projects by the group companies, and funds will be lacking for the restructuring of worthless firms and the resettlement of displaced workers. It is essential to move forward with the restructuring of the middle tier of state firms. Those firms need to be subject to the discipline and transparency of an improved corporate governance system. But actually doing this involves a complex mix of giving (putting in resources to restructure or close down firms) and taking (gaining control over revenue streams). SASAC’s approach to the issue is not perfect, but it is the most feasible under current conditions. China’s economy is doing very well, and there is not a great deal of pressure to change the current policy orientation. We can therefore expect to see these policies play out over the next few years. As its agenda moves ahead, SASAC will face a much more “fluid” market for capital, with new resources and many new options for carrying out continuous restructuring of the state sector. In the process, SASAC will become a much stronger and more influential organization.

[27] The topic is an important one which is unfortunately outside the scope of this paper.

Appendix 1: Defining State Ownership

Before the 2003 reforms of the institutions of ownership, China's system of public ownership was characterized as "state ownership, with management at different levels (*guojia suoyou*, *fenji guanli*)." In other words, local governments exercised managerial authority of many state-owned enterprises (SOEs), but that authority was delegated to it by the central government, and was in principle revocable at any time. After the 2002 Sixteenth Party Congress, this formulation was changed to one of "state ownership, with different levels of government representing [the ownership function]. (*guojia suoyou*, *fenji daibiao*)." The Interim Regulations are describe the foundations of ownership authority thus: Article Four: "The state carries out a system of state asset management in which the State Council and the Local People's Governments respectively represent the state, and carry out the responsibility of investors; enjoy the benefits, rights, obligations and responsibility of ownership in a unified way; and unite management of assets, people, and affairs." Local government was no longer simply to be the agent of central government control, but rather to be the direct representative of government as owner of the SOE. Each level of government was to exercise all the powers of ownership, as laid out in the Company Law, for the SOEs under its jurisdiction.[28]

The State Council and local governments at these two levels will set up agencies to exercise their ownership rights. Provincial level governments *will* do so, while municipal level governments *may* do so, but have permission to not set up a specialized asset management agency if they prefer administrative simplification. In any case, the local government must report their actions to the higher level of government (Articles 5 and 6). In other words, the Interim Regulations are very explicit that the power of ownership and management ultimately vested in local SASACs derives from the local governments themselves, and *not* from central SASAC or other central government agency. The central government relinquished the right to take without compensation state-owned assets of local government firms, except under national emergency situations.[29]

Moreover, state asset management agencies are not to intervene in enterprise autonomy or operations, aside from their core function of representing investor's responsibilities (Article 10). SASAC, in representing those powers, should fulfill six functions, according to Article 13.

1. exercise all the responsibilities of the investor and "upholding the benefits of the owner [weihu suoyouzhe quanyi]" The benefits of ownership as laid out in the Company Law include (in its Article 4), the right to distribution of income from assets, the right to participate in major strategic decisions, and the right to select managers.

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[28] Wang Shengke, "SASAC Again Tries to Establish Principles of Delegation to Clarify Grey Bounndaries," in 21st Century Economic Herald, August 3, 2005, at http://www.nanfangdaily.com.cn/jj/20050804/zh/200508030005.asp

[29] See also "National Audit Reveals Lack of Authority," at http://www.chinanewsweek.com.cn/2004-10-22/1/4448.html.

2. carry out the reform and reorganization of SOEs;
3. appoint Boards of Supervisors to oversee SOEs;
4. appoint and dismiss enterprise managers.
5. audit state assets
6. carry out any other tasks entrusted to them by the appropriate level of government.

Thus, it is clear that SASAC was in principle granted a broad mandate that would combine all the rights and responsibilities of ownership. Although the powers of local level SASACs derive from local governments, rather than from delegation from central SASAC, the powers of ownership, as specified in their enabling regulations, are essentially identical. This can be seen by inspection of provincial SASAC websites, or printed compendia. At both central and local levels, SASACs were granted broad powers of ownership, even though the source of the ownership authority was different in the central and local cases.

Indeed, the system established with the creation of SASAC went a significant distance toward the establishment of a system of "local government ownership," but it did not quite reach that point, because local governments were still seen as representing "the state," but no longer representing the central government. Central and local SASACs have a generally homologous structure, deriving from their common origins. Central SASAC was the main force pushing for the establishment of the local SASACs, and their share common tasks and responsibilities. Unsurprisingly, central SASAC has a great deal of influence over local SASACs. However, the formal relationship between central and local SASACs is much less close. The "Interim Regulations" which established SASAC defined the relationship between central SASAC and local representatives of state ownership. The regulations say that central SASAC will "provide guidance and supervision" to local SASAC. Central SASAC has no direct hierarchical authority over local SASACs because the authority of local SASAC derives from their local governments, while that of central SASAC derives from the State Council. However, the actual powers that SASAC possesses diverges substantially from the de jure grant of authority, at both the center and local levels. Moreover, the actual exercise of ownership authority differs as well between center and local, and among locals, despite the theoretically identical grant of authority.

They will not necessarily be "little SASACs," but could be some other organizational type. Besides organizational heterogeneity, local SASACs can vary in their scope, that is, in the definition of state assets under their purview. Several local SASACs include financial firms under their purview, even though central SASAC does not. This can potentially have a significant influence on a local portfolio, since city banks in some provinces are quite substantial. Chongqing included financial firms in its purview when its SASAC was established in 2003. Beijing, on the other hand, consolidated financial firms under Beijing SASAC at the beginning of 2005, and abolished the separate Financial Work Office that had overseen financial firms until that point.

Two factors make the practical relationship between center and local SASACs even more complex. In the first place, SASAC is not a formal government body. It is rather a special semi-independent public service unit (shiye danwei). It is an independent agency, rather than a part of the government bureaucracy. As such, its status is unprecedented in China. This special status is intrinsically bound up with SASAC's broader mission. As the public bureaucracy is professionalized and removed from economic activities, it is to become purely a government administration, without business functions or capabilities. Thus, SASAC must stand apart from the bureaucracy in order to exercise its ownership functions. This means that there really is no formal definition of the relationship between central and local SASACs, because they each stand outside the formal bureaucratic chain of command. There is a traditional Chinese categories of "professional supervision" (yewu guanxi) which is contrasted with formal subordination (lishu guanxi), and this roughly describes the relationship between central and local SASAC. However, this description traditionally refers to organizations within the bureaucracy with similar functional specialties, so it does not fully describe the SASAC situation.

SASAC has very limited tools for imposing its views on local SASACs. Because of its special administrative nature, it has no ability to censure or punish subordinate SASACs; for its regulations to be binding, until 2005, they had to be counter-signed by the Ministry of Finance or State Council. In this case, the only real recourse SASAC has is to go over the head of the local SASAC, and complain directly to the local government (backed up, of course, by implicit central government support). Indeed, during the fourth quarter of 2004 inspection tour, then central SASAC Communist Party Secretary Li Yizhong found that in Jiangsu there were widespread improper transactions. As he described it, "One local government had proposed that the costs of resettling workers be deducted from the net asset value [of a privatizing SOE]. He even proposed this as a model at a meeting I attended a 7 p.m. At the time, I didn't say anything. But I couldn't sleep that night. The next day I exchanged views with leaders in the province and city, saying this was surely wrong."

Second, central SASAC has a broad mandate that includes elements that we would recognize as regulatory power, as well as elements that reflect direct ownership rights. But central SASAC makes regulations about state ownership that are binding on local SASACs. It combines regulatory and ownership functions. Moreover, central SASAC frequently intervenes in individual cases to tell local SASACs when it can or cannot do something (for example, in the shift to all-circulating shares on the stock market). Therefore, it is impossible to determine what the scope of central SASAC guidance really is. In different cases, central SASAC may be acting as a regulator, or as an owner, and sometimes those two roles are inextricably mixed together. These concerns are especially prominent because SASAC has an over-riding political imperative which is to prevent asset-stripping. Its mandate to "protect and increase the value of state-owned assets" is in fact a mandate to prevent the emergence of obviously scandalous cases of corruption, theft, and asset-stripping in general. This concern motivates much of central SASAC's activity.

Appendix 2: The 169 Enterprises under Central SASAC

1 中国核工业集团公司
2 中国核工业建设集团公司
3 中国航天科技集团公司
4 中国航天科工集团公司
5 中国航空工业第一集团公司
6 中国航空工业第二集团公司
7 中国船舶工业集团公司
8 中国船舶重工集团公司
9 中国兵器工业集团公司
10 中国兵器装备集团公司
11 中国电子科技集团公司
12 中国石油天然气集团公司
13 中国石油化工集团公司
14 中国海洋石油总公司
15 国家电网公司
16 中国南方电网有限责任公司
17 中国华能集团公司
18 中国大唐集团公司
19 中国华电集团公司
20 中国国电集团公司
21 中国电力投资集团公司
22 中国长江三峡工程开发总公司
23 神华集团有限责任公司
24 中国电信集团公司
25 中国网络通信集团公司
26 中国联合通信有限公司
27 中国移动通信集团公司
28 中国电子信息产业集团公司
29 中国第一汽车集团公司
30 东风汽车公司
31 中国第一重型机械集团公司
32 中国第二重型机械集团公司
33 哈尔滨电站设备集团公司
34 中国东方电气集团公司
35 鞍山钢铁集团公司
36 上海宝钢集团公司
37 武汉钢铁（集团）公司
38 中国铝业公司
39 中国远洋运输（集团）总公司
40 中国海运（集团）总公司
41 中国航空集团公司
42 中国东方航空集团公司
43 中国南方航空集团公司
44 中国中化集团公司
45 中国粮油食品（集团）有限公司
46 中国五矿集团公司
47 中国通用技术（集团）控股有限责
48 中国建筑工程总公司
49 中国储备粮管理总公司
50 国家开发投资公司
51 招商局集团有限公司
52 华润（集团）有限公司
53 香港中旅（集团）有限公司
54 中国节能投资公司
55 中国高新投资集团公司
56 中国国际工程咨询公司
57 中谷粮油集团公司
58 中国包装总公司
59 中商企业集团公司
60 中国华孚贸易发展集团公司
61 中国诚通控股公司
62 中国华星集团公司
63 中国中煤能源集团公司
64 煤炭科学研究总院
65 中国汽车工业总公司
66 中国机械装备（集团）公司
67 机械科学研究院
68 中国农业机械化科学研究院
69 中国中钢集团公司
70 中国冶金建设集团公司
71 钢铁研究总院
72 冶金自动化研究设计院
73 中国化工集团公司
74 中国化学工程集团公司
75 中国化工供销（集团）总公司
76 中国化工建设总公司
77 中国轻工集团公司
78 中国轻工业对外经济技术合作公司
79 中国工艺美术（集团）公司
80 中国盐业总公司
81 华诚投资管理有限公司
82 中国恒天集团公司
83 中国纺织科学研究院
84 中国材料工业科工集团公司
85 中国建筑材料集团公司
86 中国有色矿业集团有限公司
87 北京有色金属研究总院
88 北京矿冶研究总院
89 中国国际技术智力合作公司
90 中国远东国际贸易总公司
91 中国国际企业合作公司
92 中国经济技术投资担保有限公司
93 中国地质工程集团公司
94 中国房地产开发集团公司
95 中国建筑科学研究院
96 中国北方机车车辆工业集团公司
97 中国南方机车车辆工业集团公司
98 中国铁路通信信号集团公司
99 中国铁路工程总公司
100 中国铁道建筑总公司
101 中国交通建设集团有限公司
102 中国普天信息产业集团公司
103 中国邮电器材集团公司
104 中国卫星通信集团公司
105 电信科学技术研究院
106 中国水利投资公司
107 中国农业发展集团总公司
108 中国农垦（集团）总公司
109 中国种子集团公司
110 中国中纺集团公司
111 中国工艺品进出口总公司
112 中国对外贸易运输（集团）总公司
113 中国丝绸进出口总公司
114 中国轻工业品进出口总公司
115 中国成套设备进出口（集团）总公司
116 中国出国人员服务总公司
117 中国生物技术集团公司
118 中国唱片总公司
119 中国林业国际合作集团公司
120 中国福马林业机械集团有限公司
121 中国医药集团总公司
122 中国国旅集团公司
123 中国中旅（集团）公司
124 中国新兴（集团）总公司
125 中国保利集团公司
126 中国新时代控股（集团）公司
127 珠海振戎公司
128 中国海洋航空集团公司
129 中国建筑设计研究院
130 中国电子工程设计院
131 中煤国际工程设计研究总院
132 中国海诚国际工程投资总院
133 中国纺织工业设计院
134 中国冶金地质勘查工程总局
135 中国煤炭地质总局
136 新兴铸管集团有限公司
137 中国民航信息集团公司
138 中国航空油料集团公司
139 中国航空器材进出口集团公司
140 中国电力工程顾问集团公司
141 中国水电工程顾问集团公司
142 中国水利水电建设集团公司
143 中国黄金集团公司
144 中国储备棉管理总公司
145 中国印刷集团公司
146 攀枝花钢铁（集团）公司
147 鲁中冶金矿业集团公司
148 长沙矿冶研究院
149 中国乐凯胶片集团公司
150 沈阳化工研究院
151 中国华源集团有限公司
152 中国广东核电集团有限公司
153 中国寰岛（集团）公司
154 中国长江航运（集团）总公司
155 长江口航道建设有限公司
156 上海船舶运输科学研究所
157 中国华录集团有限公司
158 上海贝尔阿尔卡特股份有限公司
159 彩虹集团公司
160 武汉邮电科学研究院
161 上海医药工业研究院
162 华侨城集团公司
163 南光（集团）有限公司
164 中讯邮电咨询设计院
165 西安电力机械制造公司
166 中国葛洲坝集团公司
167 三九企业集团（深圳南方制药厂）※
168 中国铁路物资总公司
169 中国铁通集团有限公司

Central Government Share of State Enterprise Workers

(Million Workers)	All Sectors	Industry
All State	50.3	20.5
Central SASAC	8.6	5.9
Percent	17.1%	28.8%

Central Government Share of State Assets

(Billion RMB)	All Sectors	Industry
All State		10,159
Central SASAC		4,336
Percent		42.7%

SASAC-Controlled Enterprises, Concentrated in a Few Natural Resource and Natural Monopoly Sectors

SASAC Top Five Sector	Firms	Billion Capital	Million Workers	Percent Total Cap	Percent Total Workers
Oil and Refining	3	1,321	2.07	19.06%	24.14%
Ferrous & Non-Ferrous	6	360	0.56	5.20%	6.48%
Electricity	10	1,500	1.2	21.65%	14.00%
Telecom	5	1,308	0.94	18.87%	11.01%
Military Industry	10	600	0.92	8.66%	10.68%
Top Five	34	5,089	5.69	73.44%	66.32%

Figure 1: State Industrial Enterprise Profit

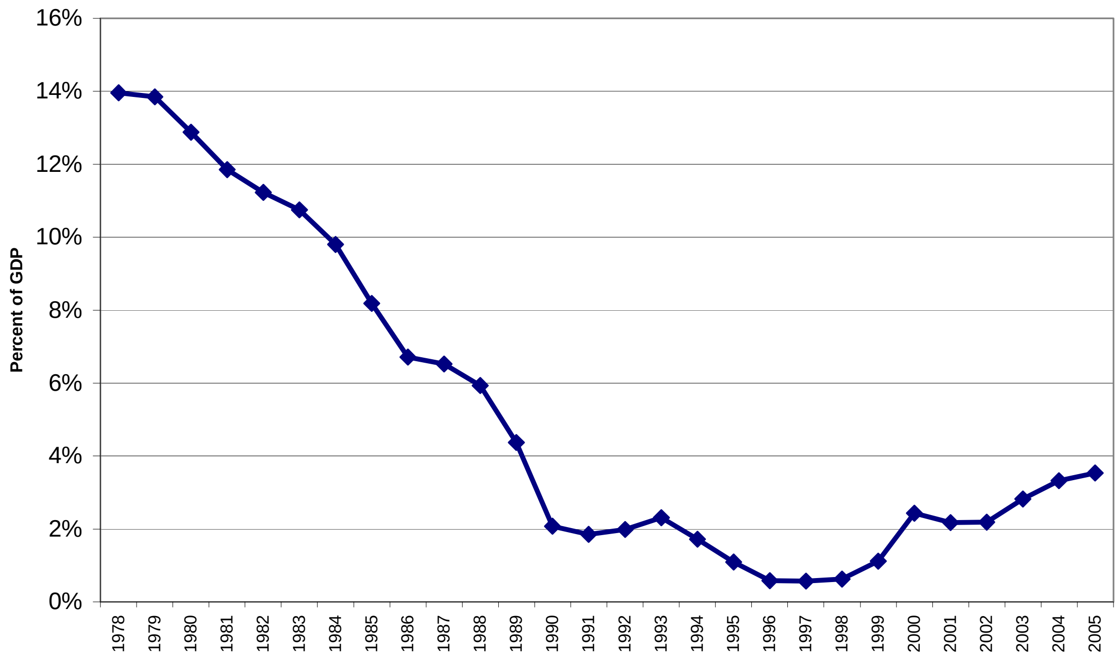

Figure 1 sources: Revised GDP 2006 Statistical Abstract, p. 20; Profit successive statistical yearbooks and 2006 Annual Report.