

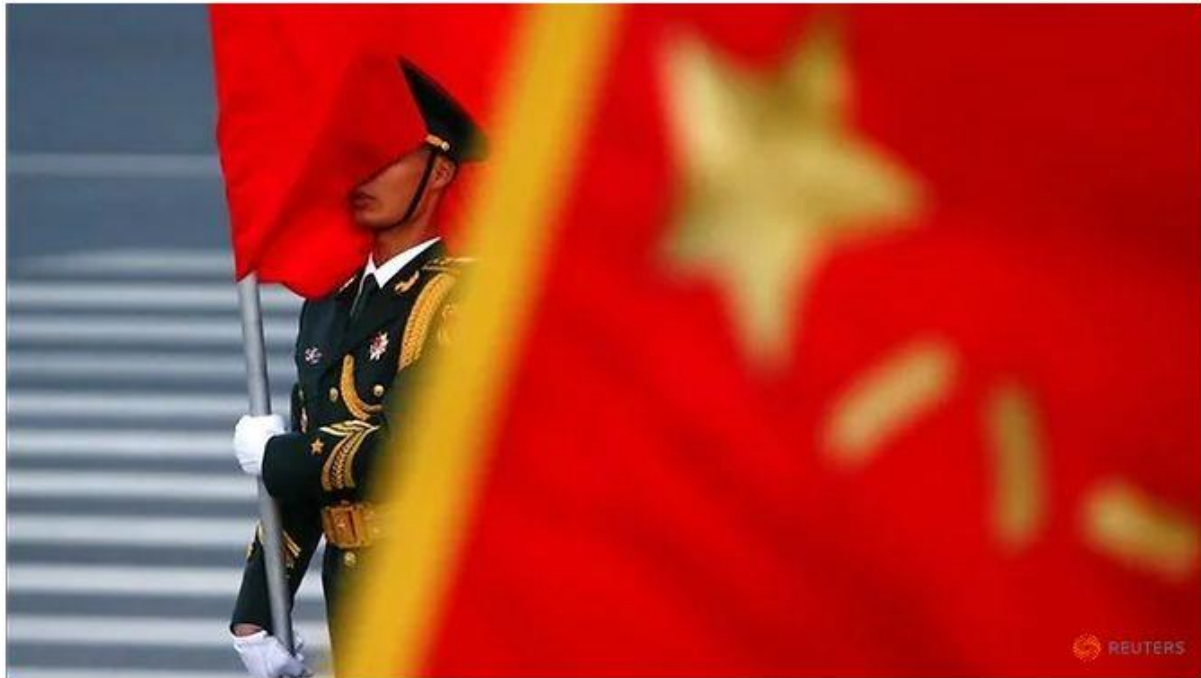
**Publication: CNA Online**

**Date: 08 August 2019**

**Headline: Commentary: The incredible resurrection of state capitalism in China**

### **Commentary: The incredible resurrection of state capitalism in China**

Chinese state capitalism has continued to strengthen since 2013, provoking discussions on the need for revamping the rules of the WTO, says observers Weihuan Zhou, Henry Gao and Xue Bai.



File photo: An honour guard soldier carries a flag. (Photo: Reuters)

SYDNEY: While state sectors remain significant in the economies of many countries, China's state-owned enterprises (SOEs) continue to generate the most controversy.

Key commentators have noted that Chinese state capitalism has continued to strengthen since the launch of a new stage of SOE reforms in the Third Plenum of the 18th Party Congress in November 2013.

This has provoked discussions on the need for revamping the rules of the WTO, which is now a central issue in the ongoing US-China trade war and subsequent negotiations.

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## CHINA'S SOE REFORMS

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As an integral element of China's economic reforms launched in 1979, SOE reform has come a long way.

While many SOEs were on the brink of bankruptcy at the beginning of the reform period, in the years since they have become bigger, stronger and more profitable.

Many SOEs are now leading players in key sectors and rank highly not only domestically, but also in the international league tables.

Before the current round of reform began in 2013, a number of achievements were made in previous periods of reform.

First, operational autonomy was granted to SOEs from 1979 to 1986, followed by delegation of authority to managers from 1987 to 1992.

The privatisation, corporatisation and modernisation of SOEs occurred from 1993 to 2002.

The establishment of the State-owned Assets Supervision and Administration Commission (SASAC) in 2003 preserved and expanded state assets and spurred the selection of national champions out of the large pool of SOEs, especially in strategic sectors.

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By early 2013, both the number and market share of SOEs had shrunk while the private sector had grown at a phenomenal pace. However, national champions became more significant and influential in the economy.

### COMPETING OBJECTIVES

The current round of reforms since 2013 appears to be designed with competing objectives in mind:

On the one hand, Chinese leaders made commitments to deepen SOE reform through a host of measures, including better classification, the further improvement of corporate management and governance, the diversification of ownership, restructuring and reorganisation.

These measures aimed at further integrating SOEs into a competitive market, with only a limited number of them serving government or public functions.

On the other hand, reforms aimed at restructuring and reorganisation boosted the power of many SOEs, which now number some of the world's largest companies.

The mixed ownership reform has been implemented in a way that promotes state capital investment in those private entities in strategic industries, through the backing of giant SOEs emerging from the restructuring and reorganisation.

Moreover, those reforms in corporate governance significantly strengthened the role of the Party in SOEs. Party committees with major decision-making power concentrated in the boards were established as a result.

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Taken together, these reforms are heading in a direction that strengthens rather than weakens state capitalism.

#### POLITICAL GOALS

This tighter control of SOEs by the Communist Party is not necessarily problematic, though it may result in anti-competitive effects. After all, SOEs may not behave like private firms but pursue political or public policy goals directed by the Party.



A Tencent sign is seen during the China Digital Entertainment Expo and Conference (ChinaJoy) in Shanghai, China August 3, 2018. (Photo: REUTERS/Aly Song)

These problems are further exacerbated by China's unique economic model, which treats SOEs as the primary economic agents of the state and the main instruments for implementing industrial and other national policies.

Frequently, large SOEs that are already market leaders are merged by the state to create behemoths, creating acute anti-trust concerns.

When it comes to implementing China's Anti-Monopoly Law, more favourable standards are applied to SOEs compared to private firms, which often receive unconditional clearance by the merger review agency.

For example, when assessing the concentration of SOEs, national interests and national industrial policies are also considered, allowing for more leniency in merger reviews.

Other firms in the same sectors then become collateral damage in such ambitious campaigns and the consequences are well documented.

These also raise difficult problems for authorities in other countries, who oversee competition matters and have to grapple with issues such as whether Chinese SOEs should be treated as a single entity controlled by the Chinese Communist Party.



A man stands in front of an electronic board displaying stock information at a brokerage firm in Hangzhou, Zhejiang province, China April 1, 2019. (Photo: REUTERS/Stringer)

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A man stands in front of an electronic board displaying stock information at a brokerage firm in Hangzhou, Zhejiang province, China April 1, 2019. (Photo: REUTERS/Stringer)

In addition to competitive concerns, SOEs also pose mounting challenges to the international trading system, as they may undermine the conditions of competition that the WTO is designed to maintain.

#### CONTINUE REFORM DISCUSSIONS

It remains debatable as to whether the existing WTO rules are adequate to tackle China's state capitalism.

It would be worthwhile for China to engage in ongoing discussions of WTO reform and to consider joining existing trade deals, such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which contain detailed rules on SOEs.

China's economic reform has reached such a crossroads again and external stimulus like clearer international rules on SOEs might be exactly what it needs to abate the resurrection of state capitalism.

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This commentary first appeared on East Asia Forum.

Source: CNA/nr(sl)