

Studies on the Chinese  
Market Economy Series

# Reforming China's State-Owned Enterprises

*Chief Editors:*  
Gao Shangquan  
and Chi Fulin

---

FOREIGN LANGUAGES PRESS    BEIJING

Studies on the Chinese Market Economy Series

# **Reforming China's State-Owned Enterprises**

*Chief Editors:*  
Gao Shangquan and Chi Fulin

FOREIGN LANGUAGES PRESS BEIJING

First Edition 1997

The project is aided by  
(Hainan) China Foundation for Reform and Development Research.

ISBN 7-119-00300-3

© Foreign Languages Press, Beijing, China, 1997

Published by Foreign Languages Press  
24 Baiwanzhuang Road, Beijing 100037, China

Distributed by China International Book Trading Corporation

35 Chegongzhuang Xilu, Beijing 100044, China  
P.O. Box 399, Beijing, China

*Printed in the People's Republic of China*

## 图书在版编目(CIP)数据

中国国有企业改革:英文/高尚全,迟福林主编.

—北京:外文出版社,1997

(中国市场经济研讨丛书)

ISBN 7-119-00300-3

I.中… II.①高… ②迟… III.国有企业-经济体制改革  
—中国-英文 IV.F279.24

中国版本图书馆 CIP 数据核字 (96) 第 12867 号

责任编辑 胡开敏

封面设计 唐 宇

## 中国国有企业改革

高尚全 迟福林 主编

\*

©外文出版社

外文出版社出版

(中国北京百万庄大街 24 号)

邮政编码 100037

北京外文印刷厂印刷

中国国际图书贸易总公司发行

(中国北京车公庄西路 35 号)

北京邮政信箱第 399 号 邮政编码 100044

1997 年(大 32 开)第 1 版

(英)

ISBN 7-119-00300-3 / F·22(外)

02550

4-E-3094P

## Editor's Note

Reform of state-owned enterprises has always been an important element of China's overall economic reform. At present, reform of the state-owned enterprise system is a major and crucial aspect of China's shift from a planned economy to a market economy, and accordingly has commanded widespread attention. Since its founding, the China (Hainan) Institute for Reform and Development has taken reform of state-owned enterprises as a major issue for study and has developed many new ideas and perspectives, resulting in rapid progress. On this foundation, in October 1994 the China (Hainan) Institute for Reform and Development, along with the China Economic System Reform Association, the United Nations Development Planning Office and the German Technology Cooperation Company, jointly sponsored the "International Forum on China's Reform of State-Owned Enterprises." The forum lasted three days and was attended by the leaders of government departments, scientific and academic experts, leaders of provincial and municipal committees for restructuring the economic systems, managers from large and medium-sized enterprises and economists from Taiwan. Also attending were officials from the United Nations, the International Monetary Fund, and economists from France, Holland, Hungary, the United States, Australia, Chile, the Republic of Korea, and Vietnam. Reform of state-owned enterprises was the focus of the discussions which were both extensive and thorough, resulting in many observations and constructive criticism. In April 1995, the China (Hainan) Institute for Reform and Development and the United Nations Development Planning Office convened the "International Forum on Reform of State-Owned Enterprises and Comparative Management in the Asia-Pacific Region," which was attended by over 40 experts and officials

from China and abroad. Again, many important views and opinions were exchanged. This book was compiled on the basis of research done by the China (Hainan) Institute for Reform and Development, and according to discussions and lectures at the two forums as well as additional reference sources. We would like to express our sincere thanks to all those, from both China and abroad, whose views are represented on these pages.

This book does not supply a single answer or final conclusion to the important questions facing China's state-owned enterprises, but it does aim to provide readers with the ideas, perspectives, and views of domestic and international scholars in the hope that readers may glean the essentials and thereby gain some insight into the situation.

This book was edited by Gao Shangquan and Chi Fulin and was written by Sun Xiuping. Workers in the research, information, and other departments of the China (Hainan) Institute for Reform and Development made great contributions to this book, and to all of them we express our respect and thanks.

Errors or inconsistencies may appear in this book and we welcome corrections from our readers.

Editors

# Contents

## *Chapter I*

<b>Reform of State-Owned Enterprises: The Crux of China's Economic Structural Reform</b>	1
I. State-Owned Enterprises: The Current Situation and Outlook	1
II. Problems of Innovation Within the Chinese Enterprise System	8

## *Chapter II*

<b>Basic Thoughts on the Transformation Period for State-owned Enterprises</b>	18
I. Enlivening the State-Owned Economy as a Whole	18
II. Creating a Modern Enterprise System—the Basic Task for Transforming the Economic System	21
III. Measures to Deepen the Reform of State-Owned Enterprises	37

## *Chapter III*

<b>Reform of the Property Rights System: A Breakthrough in the Reform of State-Owned Enterprises</b>	46
I. Making Clear Property Relations for the Transition to a Modern Enterprise System	46
II. What Are the Independent Property Rights of the Enterprise's Legal Person?	59
III. The Issue of the Central and Local Publicly Owned Assets	66
IV. Establishing the Property Rights of the Labor Force Under the Socialist Market Economy	72
V. Property Rights Market: Advancing the Circulation and Reorganization of Property Rights	80

#### *Chapter IV*

<b>The Transformation of State-Owned Enterprises Under a Corporate System</b>	85
I. Reform of State-Owned Enterprises of Various Types and a Model for Corporate System Transformation	85
II. The Chinese Style of the Western Modern Corporate System	105
III. Readjustment of the Enterprises Structure and Organization of Corporate Groups	113
IV. Standard Operation of State-Owned Stocks and Standardization of the Corporate System	137

#### *Chapter V*

<b>Reorganization of State-Owned Enterprises and Their Liabilities</b>	151
I. Significance and Methods of Reorganizing State-Owned Enterprises	151
II. The Necessity of Reorganizing the Liabilities of State-Owned Enterprises	160
III. Methods and Measures for Reorganizing the Liabilities of State-Owned Enterprises	166

#### *Chapter VI*

<b>Reconfiguration of State-Owned Assets Management</b>	182
I. The Present Situation and Problems of State-Owned Assets Management in China	182
II. The Reconstruction of the State-Owned Assets Management System	185
III. Constructing the Operating System for State-Owned Assets with the Establishment of State-Owned Holding Companies as the Key	193
IV. Optimum Results for State-Owned Assets: Reallocation of State-Owned Assets	203

#### *Chapter VII*

<b>Separation of Government Administration from Management: The Key to Changing the State-Owned Enterprise System</b>	207
I. The Roots of the Deep Contradictions in the Reform of the	



China's Economic System	207
II. The Government Functions and Responsibilities under the Market Economy	212
III. A Design for the Separation of Government Administration from Enterprise Management and the Reform of Organizations	215

### *Chapter VIII*

<b>Establishing a Mechanism for the Scientific Management of State-Owned Enterprises</b>	218
I. The Basic Idea for Reform of the Internal Management of State-Owned Enterprises	218
II. The Key to Scientific Management: Perfecting the Company's Corporate Administrative Structure	222
III. The Modern Enterprise System Calls for Modern Entrepreneurs	223

# *Chapter I*

## **Reform of State-Owned Enterprises: The Crux of China's Economic Structural Reform**

### **I. State-Owned Enterprises: The Current Situation and Outlook**

At present, state-owned enterprises still play an important role in the Chinese national economy. This role can be seen mainly in four aspects. First, state-owned enterprises still make up a considerable part of the economy; as a proportion of the gross national product (GNP) they represent 35-40 percent. Second, a large proportion of industry consists of state-owned enterprises. Excluding enterprises below the township level, the number of state-owned enterprises comes close to 50 percent of all enterprises. They still comprise about 40 percent of the total enterprises including those below the township level, while township enterprises take up 50 percent, and foreign-invested enterprises (Chinese-foreign joint ventures, Chinese-foreign cooperative enterprises and wholly owned foreign enterprises), individual enterprises and privately operated enterprises, about 10 percent each. Third, the heart of the national economy, such as infrastructure, energy, transportation, public utilities, and other backbone industries are all state-owned. As non-state-owned enterprises in these areas are small in number, the development of township enterprises, industry and the entire economy would be impossible without the dominant role of state-owned enterprises. Fourth, state-owned enterprises provide more than 60 percent of all state revenue, making them the state's preeminent source of income.

On the other hand, many outstanding problems exist in state-owned enterprises today, some of which have become a major encumbrance to Chinese society. This is primarily apparent in the fact that many state-owned enterprises show poor financial returns and have incurred large debts. According to 1994 statistics, nearly 40 percent of all state-owned enterprises were operating in the red. Moreover, these figures were generated before the new accounting system was fully in place and do not reflect the whole picture. Also, the input-output ratio of state-owned enterprises is very low. Over 70 percent of 1993's fixed assets and capital loans went to state-owned enterprises, but the proportion held by state-owned enterprises in the growth sector of the national economy was only 20 percent and estimates for 1994 are that they won't even reach that high. This is all to say that the main force of economic growth is generated by non-state-owned enterprises. In 1994 the economy grew at a rate of 11.8 percent, but the growth of state-owned enterprises was only 2 to 3 percent at most. In the 15 years since the initiation of reform and opening to the outside world, only 12.2 percent of the net output value of state-owned enterprises was a result of increased financial returns while 87.8 percent was due to increased investment. In other words, state-owned enterprises basically rely on increasing investment. Development in the United States was equivalent to that of China in the past 40 years: The proportion of growth due to increased investment amounted to slightly over 40 percent, whereas growth from increased returns reached 54 percent. This calculation is determined from overall growth figures. If calculated only on the basis of profits, the results are much the same. The proportion of increased profits of China's state-owned enterprises stemming from increased financial returns is less than 20 percent; from increased investment, more than 80 percent. American increases resulting from greater investment amounted to less than 35 percent, whereas that from increased returns was more than 65 percent. This illustrates that operation in state-owned enterprises is far from ideal, and that in fact this has already become a problem that must be solved in the implementation of a healthy economic cycle.

Currently, the Chinese economy is indeed in good shape, but several prominent problems do exist. Moreover, they exist at a quite fundamental level in five areas:

The first problem is inflation which remains high to the present day. The 1994 annual plan and the resolution passed by the National People's Congress aimed at bringing inflation down below the double-digit mark (or below 10 percent), but inflation that year was 21.7 percent. Estimates for 1995 also say it is improbable that inflation will fall below 10 percent, with the lowest figure projected at 13 percent, and some predicting as high as 15 percent. This is higher than in the majority of countries throughout the world.

The second problem is employment. According to statistics urban unemployment was 2.3 percent in 1993 and 2.9 percent in 1994, and estimates for 1995 do not exceed 4 percent. These are very low figures, basically full employment. However, these statistics are incomplete and are missing two important elements. First, urban state-owned enterprises currently have some 20 to 30 million latently unemployed workers. Second, in the countryside a surplus labor force of some 100 million are in need of employment. The surge of peasants coming into the cities each year after the Spring Festival is a case in point. Because the economic situation is now quite good, employment opportunities in the cities are plentiful and most people who have already arrived from the countryside are able to settle down, or at least make ends meet. As for the other 100 million, if only half of them or less, say 30 to 50 million came to the cities, the cities would be overwhelmed, making it extremely difficult to maintain social order.

The third problem is the relationship between urban and rural areas. Since the start of reform both the countryside and cities have been developing, and the standard of living in both has been on the rise. But the cities have developed a bit quicker than the countryside. As a result, the disparity between urban and rural areas and between workers and peasants has shown signs of broadening in recent years.

The fourth problem lies in the economic structure. In gener-

al, in China's current economic structure the processing industry is developing too quickly while energy resources, transportation, and the infrastructure and relatively backward. These factors place major restraints on rapid development of the national economy.

Fifth is the problem of state-owned enterprises. State-owned enterprises are inefficient and are burdened with large debt and a shortage of capital. Quite a number of them have difficulty in maintaining normal operations. According to a survey done in August, 1994, out of 1,320 state-owned large and medium-sized state-owned enterprises in Liaoning Province, only 10.4 percent could truly be said to be in good shape, and even these were not without problems. Unless rectified in time, these enterprises are always in danger of decline. Relatively successful enterprises accounted for 22.1 percent; enterprises with major difficulties and large gaps between assets and liabilities, yet which can still be saved, amounted to 49.7 percent. Those unable to be saved accounted for close to 18 percent, and the number nearing bankruptcy was estimated at over 10 percent (some say around 15 percent). A good portion of these enterprises are getting worse and won't be able to solve their problems. For instance, of the third category (49.7 percent) it is certain that a large proportion will slowly move toward bankruptcy. Therefore, although state-owned enterprises serve an important function, they have become our "heart disease." On the one hand state-owned enterprises are of major importance; on the other hand, they are a national burden. In addition, these two facets are continually evolving: the pillar-like function may possibly decrease while the burdens progressively increase.

If the aforementioned five problems are not resolved it will be impossible for China's economy to move toward prosperity and stability. But many problems remain to be solved before these difficulties can be overcome. Moreover, the measures adopted frequently clash with one another. For example, in order to control inflation, China must control demand and currency, and compress the scale and speed of capital construction. Also, employment problems must be faced with specific goals and time-

tables. Problems in the countryside require increased state financing or it will be impossible to resolve them. Energy, transportation, and infrastructure problems too need definite sizing and income for resolution. All these requirements hold even more true for state-owned enterprises.

The key to economic reform lies in reform of these state-owned enterprises. It means that if reform of state-owned enterprises can be firmly grasped, their economic benefits and wealth will increase. Even if investment remains at the present level, social wealth will increase greatly. Because the latent potential of state-owned enterprises is great, and other problems can then be readily solved.

As for inflation, if the economic benefits of state-owned enterprises grow, inflation—particularly the inflation resulted from an increase in production cost—can be absorbed, preventing rises in production costs being passed on to the price of the finished product. This is a very workable theory: Both post-World War II Germany and Japan since the 1970s had success by following this model.

By raising the economic benefits of state-owned enterprises, not only will inflation be controlled, but workers' incomes will rise as well, improving their ability to withstand inflation. Moreover, the state's financial revenue will increase, the scale of construction will expand, growth will quicken, and unemployment will be relieved.

This also applies to the countryside: Once state-owned enterprises are rectified and state financial revenues rise, the state can then assist or even subsidize agriculture. In developed countries the urban-rural gap has been overcome not only by increasing agricultural production, but also by state subsidies to agriculture as is the case when the state purchases agricultural products at high prices and then exports them at low prices. How large should these types of subsidies be? Japan, the United States and the Europe Economic Community (EEC) provide three examples. The proportion of farmers' net agricultural income coming from all subsidies amounts to 30 percent in the United States, 50 percent in the EEC, and 70 percent in Japan. That is to say that,

for every dollar that a Japanese farmer takes in, 70 cents come from the government. And where does the government get this money? Because of the high economic returns from urban enterprises and industry, these revenues can be transferred from secondary and tertiary industries. China's greatest difficulty lies in just this area: Not only is the farming sector huge, making it impossible for the state to subsidize it, but industries aren't very profitable, leaving the state no financial leeway. Thus, it is extremely difficult for the state to increase agricultural subsidies at all. This means that if profitability of state-owned enterprises is not turned around, the urban-rural gap will be very difficult to narrow.

These conditions apply as well to the infrastructure. Currently, investment in state-owned enterprises makes up a large percentage of total investment, and the proportion of the state's financial revenue derived from state-owned enterprises is also quite large. If revenues from state-owned enterprises rise, the state's revenues will increase as well and infrastructure construction will be correspondingly strengthened. In addition, if the economic benefits of state-owned enterprises increase, their own problems will be solved as well. Therefore, deepening reform of state-owned enterprises is a task of the utmost urgency.

China wishes to establish a complete socialist market economic system, so reform can be seen at three levels: Enterprises, the market, and the macroeconomy. These three levels interact with and restrain each other, and all are necessary. Since the initiation of reform and opening to the outside world, the growth and development of the market has been relatively speedy and successful because of China's persistence in turning to the market. However, development among these three levels has been uneven. Before 1994, the development of state enterprises and the macroeconomy was rather stagnant. Since 1994, owing to major macroeconomic reforms in state financial administration, taxation, finance, investment, and the merger of the two foreign exchange rates, the sluggish condition at the macroeconomic level has been transformed. A year after implementation, rectification of financial administration, taxation, and the merger of the exchange

rates have been essentially completed. But progress in the reform of finance and investment has been comparatively slow, especially in relation to several major financial reform goals. The operation of specialized banks as enterprises and the marketization of loan interest rates, for example, have not really been started yet. It is mainly because the seriously stagnant reform of state-owned enterprises cannot meet the demands of the above financial reforms. If this situation persists, there may be continued restraint and non-completion of financial reforms, or macroeconomic reform may be forced to make all kinds of allowances and accommodations. This not only may wreck what advances have been made, but may seriously delay progress in the construction of the new economic system, and thereby affect and restrict further economic development. Therefore, reform of state-owned enterprises must be undertaken as a matter of utmost importance and a pressing requirement for the nation.

Once again, state-owned enterprises are now facing contradictions at the deepest levels—the conflicts between the introduction of market mechanisms and the serious restrictions of the traditional system. More than a decade of market-oriented reform has established market mechanisms while phasing out a large portion of mandatory planning and essentially freeing the price structure. This has caused enterprises—state-owned and otherwise—to turn toward the market and compete equally with one another. The traditional administrative management system has not yet been reformed or abandoned; enterprises are still, to a large degree, subordinate to the government; the relations of property rights have not been straightened out; and the status of enterprises as legal entities has not been clearly defined. Add to this the incompleteness of the market setup and market mechanisms. The result is that state-owned enterprises face major restrictions when competing in the market. At the same time, state-owned enterprises are in an unequal competitive position with non-state-owned enterprises. Deep contradictions within the system are at the root of their problems.

Along with the acceleration of marketization and internationalization of China's economic system, the competitive envi-



ronment for state-owned enterprises is becoming increasingly grim. Thus the task of improving their market adaptability and competitiveness becomes ever more urgent.

After more than a decade of reform and opening to the outside world, profound changes have occurred in China's economic system. A new setup has taken shape with the public ownership as the mainstay and the coexistence and common development of various economic entities such as the state-owned, collective, individual, private, and foreign-invested economies. In the allocation of resources the roles of market mechanisms have become clearer. State-owned enterprises, particularly those of large and medium-sized, have always been a leading force in the development of China's national economy and society and have made significant contributions to the flourishing and development of economic construction and reform. In general, the status and functions of these enterprises has not changed—they are still the pillar and backbone of the national economy. However, it should be noted that for several reasons the competitiveness, profit level, and speed of development of a considerable portion of state-owned enterprises are gradually losing ground to non-state-owned enterprises, most notably foreign-invested enterprises, township enterprises, and privately run enterprises. When China's national economy is being brought into line with the international economy step by step, the competitive situation faced by state-owned enterprises in the future will be even more dire. Deepening enterprise reform, liberating and developing the productive forces of the state sector through systemic innovation, and improving the all-around competitive ability of these enterprises are therefore essential.

## **II. Problems of Innovation Within the Chinese Enterprise System**

The establishment of a modern enterprise system is a complex systematic project involving various aspects. With regards to cognition, structural inertia, and practical operation, there are bound to be a variety of difficulties; only by taking hold of these