Ownership Restructuring in Chinese State Industry: An Analysis of Evidence on Initial Organizational Changes*

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China has now entered the third decade of its economic reform. While the sweeping decollectivization in the rural sector during the early 1980s is widely regarded as successful, reform in the urban sector has proceeded at a much slower pace and with mixed results.[1] The main carriers of economic activities in the urban sector are state-owned enterprises (SOEs). Since 1993, the Chinese government has embarked on a major effort to shift the focus of SOE reform from delegation of decision-making authority to enterprises, which was the predominant strategy in the preceding decade, to ownership restructuring.

The ownership restructuring strategy aims to turn SOEs from public sole proprietorships controlled by industry-specific government agencies at various administrative levels into shareholding entities that are independent in decision-making, diverse in ownership without serious erosion of public ownership, and fully guided by markets. This effort is driven by the fact that, despite the increase in enterprise autonomy and a brief initial improvement in performance, SOEs have faced growing financial difficulties and incurred heavy losses, especially in the 1990s.

While the reform is to be implemented in the entire state sector, its pace has been uneven among different enterprises.[2] The purpose of this article is to examine the initial organizational changes brought about by the reform. Analysis of a questionnaire survey of industrial SOEs conducted by the State Statistical Bureau in mid-1998 reveals that the state retained a predominant ownership stake in over half of the restructured enterprises; the financial and personnel liabilities were not significantly reduced among restructured enterprises; and there were widespread inconsistencies between the blue-print of reform and the actual organizational features of restructured enterprises.

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1. For overviews, see Barry Naughton, *Growing Out of the Plan: Chinese Economic Reform, 1978–1993* (New York: Cambridge University Press, 1995); Dwight H. Perkins, "Reforming China's economic system," *Journal of Economic Literature*, Vol. 26 (1988), pp. 601–645, and "Completing China's move to the market," *Journal of Economic Perspectives*, Vol. 8 (1994), pp. 23–46.

2. By the end of 1997, a total of 13,103 shareholding enterprises had been formed in the industrial sector. At the same time, 98,600 industrial SOEs were still organized as sole proprietorships. Guojia tongji ju, *Zhongguo tongji nianjian 1998* (*Statistical Yearbook of China 1998*) (Beijing: Zhongguo tongji chubanshe, 1998), p. 436. For more information about the variations in the pace of ownership restructuring, see the discussion of data below.

On the other hand, however, the reform appears to have brought about some substantive changes, such as greater decision-making autonomy, diversification of ownership structure, and adoption of managerial and employee stake holding. It remains to be seen to what extent these new arrangements can improve the performance of restructured enterprises. Nevertheless, the formative governance structure that they embody may have broadened the ground on which to redefine property rights and further the search for solutions to the plight faced by SOEs.

The following discussion first provides an overview of the process of SOE reform since the late 1970s. It then highlights the main problems that ownership restructuring is intended to tackle, and the institutional milieu in which the restructuring has been carried out. This is followed by a report of the results from data analysis with regard to the initial organizational changes in restructured enterprises. The article concludes with a discussion on the implications of the main findings for understanding the challenges facing the reform.

Reform and Change in the State Sector

SOEs were the spearhead of China's industrialization in the pre-reform era. But their dominant position in the economy, especially their leading role in employment, output production and sales, has declined in recent years, as shown by the statistics in Table 1. Reforms in the state sector were started in the late 1970s. The process can be divided into three periods featuring different strategies: pilot reforms during 1979–83, increase of enterprise autonomy during 1984–92 and ownership restructuring since 1993.[3]

Immediately after the landmark decision on economic reform in 1978, pilot programmes were introduced in selected enterprises to delegate decision-making authority and link reward to performance. That was followed by the adoption of two measures aimed at increasing financial incentives and hardening budget constraint faced by SOEs: the "tax for profit" (*li gai shui*) scheme and the "loan for (fiscal) grant" (*bo gai dai*) scheme in the early 1980s. A new phase of reform began in 1984, when the factory director responsibility system was introduced and began to be implemented in the entire state sector.[4] Such reform culminated in the enactment of the Ordinance on Restructuring the Management Mechanisms of State-owned Industrial Enterprises in 1992, which significantly increased the decision-making autonomy of SOEs.[5]

3. For an account of the reform process in the first two periods, see Naughton, *Growing Out of the Plan*, and Gary Jefferson and Inderjit Singh (eds.), *Enterprise Reform in China* (New York: Oxford University Press, 1999).

4. By the end of 1988, the reform was implemented in 95% of industrial SOEs. *Renmin ribao* (*People's Daily*) (*RMRB*), 5 January 1999.

5. For comprehensive analyses of this issue, see Jefferson and Singh, *Enterprise Reform in China*, and the reports in Zhongguo qiyejia diao cha xitong (China Entrepreneur Survey System [State Council]) [ed.], *Zhongguo qiyejid duiwu changzhang yu fazhan baogao* (*Reports on the Growth and Development of Entrepreneurs in China*) (Beijing: Jingji kexue chubanshe, 1998).

Table 1: **Selected Statistics on Industrial SOEs**

Year	*Number of employees (million)*	*% in workforce*	*% in net output*	*% in sales revenue*	*Gross profits (billion yuan)*	*Total losses (billion yuan)*	*Ratio of gross profit to assets*	*% of loss-making industrial SOEs*	*Debt-equity ratio*
1978	33.19	72	–	–	50.9	4.2	15.5	–	–
1979	32.08	–	–	–	56.3	3.6	16.1	–	–
1980	33.34	65	81.5	80.9	58.5	3.4	16	–	–
1981	34.88	–	–	–	58	4.6	15	–	–
1982	35.82	–	–	–	60	4.8	14.4	–	–
1983	36.32	–	–	–	64.1	3.2	14.4	–	–
1984	36.69	60	77.3	–	70.6	2.7	14.9	–	–
1985	38.15	58	74.5	73	73.8	3.2	13.2	9.6	–
1986	39.55	57	73.1	72.8	69	5.5	10.6	13.1	–
1987	40.86	57	72.5	71.5	78.7	6.1	10.6	13	–
1988	42.29	57	71.2	69.2	89.1	8.2	10.4	10.9	–
1989	42.73	57	70.6	69.1	74.3	18	7.2	16	–
1990	43.65	57	70.1	68.8	38.8	34.9	3.2	27.6	–
1991	44.72	57	67.9	66.7	40.2	36.7	2.9	25.8	–
1992	42.21	57	65	63.6	53.5	36.9	2.7	23.4	–
1993	44.99	54	56.7	58.7	81.7	45.3	3.2	28.8	2.08
1994	43.71	51	53.8	51.7	82.9	48.3	2.6	30.9	2.12
1995	43.97	52	53.8	48.8	66.6	64	1.7	33.8	1.92
1996	42.77	52	48.5	46.3	41.3	79.1	1	33.6	1.87

1997	40.4	50	46.3	43.5	42.8	83.1	0.9	38.2	1.89
1998	27.21	–	57	51.8	52.5	102.3	0.7	–	1.78
1999	24.12	–	56.3	50.9	99.8	85.1	1.2	–	1.62

Notes:

(1) All the figures reported in this table are based on official statistics on industrial enterprises (including non-SOEs) under the independent accounting system. According to the State Statistical Bureau (see *Statistical Yearbook 1995*, p. 401), independent accounting enterprises need to meet three criteria: they must (i) register as a legal person, have independent organizational form and location, and bear legal responsibility; (ii) have independent possession of assets, debt-bearing status, and authority to enter contracts with other parties; and (iii) conduct independent profit-loss accounting and maintain independent balance sheets. In contrast, non-independent accounting units are those affiliated with other organizations and do not meet the above three criteria.

(2) Figures for 1998 and 1999 include both solely state-owned enterprises and shareholding enterprises where the state held controlling share. The latter are not included in the statistics on industrial SOEs in previous years. Also, the pre-1998 industrial statistics include all independent accounting enterprises at and above the level of township, whereas the statistics for 1998 and 1999 include all industrial SOEs and non-SOEs with annual sales revenue of more than 5 million *yuan* (see *Statistical Yearbook 1998*, p. 428).

(3) Net output refers to “net value of industrial output” (*gongye jingchanzhi*) for 1980–92 and “value-added of industry” (*gongye zengjiazhi*) for 1993–99 (for definitions, see *Statistical Yearbook 1993*, p. 472).

(4) Sales revenue does not include sales taxes and surcharges, which do not contain consistent categories over time.

(5) Gross profits refer to profits before enterprise income tax and after deduction of total losses and other taxes (e.g., value-added tax).

(6) Assets refer to the sum of working capital and net value of fixed assets for 1978–92 and to what are reported as “total assets” (*zong zichan*) (as of 1993) for 1993–99. The latter include both the former and some other elements, such as “intangible assets” (see *Statistical Yearbook 1995*, p. 449).

Sources:

Statistical Yearbook 1994, pp. 379–382; *1995*, pp. 388–391; *1996*, pp. 414–17; *1997*, pp. 424–27; *1998*, pp. 444–47; *1999*, pp. 432–35; *2000*, pp. 408, 414–17. Guojia tongji ju, *Zhongguo gongye jingji tonji nianjian* (*Statistical Yearbook of China’s Industrial Economy*) (Beijing: Zhongguo tongji chubanshe), *1993*, pp. 20, 52, 90, 116, 129, 142; *1994*, pp. 81–86; *1995*, pp. 79–87; *1998*: pp. 23, 51–52, 76–81, 103–11, 116; *RMRB*, 27 February 1999, 29 February 2000.

In the second half of the 1980s, the increase of autonomy in decision-making was accompanied by robust and improving performance of SOEs. This is shown by a number of studies using both aggregate statistics and enterprise survey data.[6] As the plan steadily declined and SOEs' activities changed course towards markets, however, they faced an increasingly competitive environment. Since the early 1990s, the performance of SOEs has deteriorated despite greater autonomy granted to them. Table 1 shows a steady increase of both the percentage of loss-making enterprises and the offsetting effect of their losses on the total financial gains made by SOEs. Since SOEs are financially highly leveraged, as indicated by the debt-equity ratio in Table 1,[7] their deteriorating performance has also raised questions about their abilities to service their debt, which in the case of massive default may be turned into a major drag on the banking sector and consequently the economy as a whole.[8]

The decline of performance among SOEs prompted the central leadership to change reform strategy in the wake of the 14th CCP Congress in 1992, when the central leadership abandoned the traditional emphasis on the central role of the plan and redefined China's transitional economy as a "socialist market economy" based on public ownership but not necessarily public sole proprietorships. In November 1993 the Third Plenum of the 14th Central Party Committee spelled out detailed measures for the implementation of a new strategy for the establishment of a "modern enterprise system." The same strategy was reiterated and further elaborated at the 15th CCP Congress in 1997.[9]

Ownership Restructuring as the Avenue to a "Modern Enterprise System"

The chief measure for establishing a "modern enterprise system" among SOEs is ownership restructuring, which the Chinese leadership has referred to as the shareholding reform. Partially modelled on Western corporate organizations, its basic framework was laid out in the Company

6. See Theodore Groves, Yongmiao Hong and John McMillian, "Autonomy and incentives in Chinese state enterprises," *Quarterly Journal of Economics*, Vol. 109 (1994), pp. 183–209; Gary Jefferson and Thomas G. Rawski, "Enterprise reform in Chinese industry," *Journal of Economic Perspectives*, Vol. 8 (1994), pp. 47–70; Jefferson and Singh, *Enterprise Reform in China*; and Wei Li, "The impact of economic reform on the performance of Chinese state enterprises, 1980–1989," *Journal of Political Economy*, Vol. 105 (1997), pp. 1080–1106.

7. It should be noted that the statistics on the equity values of China's SOEs are more an indication of the book values of their own assets than a reflection of the market values of such assets. We thank Athar Hussain for alerting us to this.

8. See Nicolas Lardy, *China's Unfinished Economic Revolution* (Washington, D.C.: The Brookings Institution, 1998).

9. For detailed discussions of the objectives of the reform, see Jiang Zemin's report to the 15th Congress of the Communist Party of China, and the articles by a number of leading Chinese economists in Guojia jingji tizhi gaige weiyuanhui shengchan tizhi si (Bureau of Production and System of the State Commission for the Reform of Economic System) (ed.), *Qiye gufengzhi gaizao yu zichan chongzu fangan* (*The Scheme for the Shareholding Reform of Enterprises and Asset Reorganization*) (Beijing: Zhongguo shangye chubanshe, 1997), pp. 5–6, 6–10, 17–18.

Law enacted in 1993 and a number of other laws and regulations that have since been introduced.[10]

China's SOEs have traditionally been organized as public sole proprietorships.[11] They are "owned" by supervising authorities that exert substantial control and income rights over subordinate enterprises. But many other agencies have also had varying levels of influence on the decision-making of SOEs and laid claims on their income. Although government agencies are supposed to act as owners, individual bureaucrats are not self-motivated to do their utmost to manage SOEs, as they are not legally entitled to the residual income rights that owners of private enterprises would normally have. Also, despite nominal increase of decision-making authority at the enterprise level, frequent meddling by officials and agencies has persisted.[12] Moreover, while the formal rewards of SOE managers have been linked to the performance of their enterprises, such a link has been rather weak.[13] The increase of managerial autonomy in daily operations has also been accompanied by an increase of managerial corruption, as exemplified by a series of high profile cases exposed in the 1990s.[14]

To address the above problems, the central leadership has adopted the ownership restructuring strategy in hopes that it could help "clarify" the ambiguities in SOEs' property rights, further increase managerial autonomy, strengthen managerial incentives and improve the effectiveness of monitoring.[15] The reform is to turn SOEs from public sole proprietorships into four alternative organizational forms: limited liability stock company, limited liability company, employee shareholding co-operative and private enterprise. The latter two types have been intended mainly for small SOEs.[16]

According to the Company Law, the main differences between limited liability companies and limited liability stock companies lie in the following: first the threshold of equity capital (0.5 million versus 10 million *yuan*), secondly the level of approving authority (sub-provincial

10. Among these are the Accounting Law in 1993, Partnership Law in 1997, Provisional Guidelines for the Development of Urban Employee Shareholding Co-operatives in 1997, Contract Law in 1999 and Securities Law in 1999.

11. See David Granick, *Chinese State Enterprises: A Regional Property Rights Analysis* (Chicago: The University of Chicago Press, 1990).

12. See Steinfeld, *Forging Reform in China* (Cambridge: Cambridge University Press, 1998).

13. For evidence and discussions of this issue, see Zhongguo qiyejia diaocha xitong, *Qiye jingyingzhe wenjuan diaocha baogao* (*Report on Annual Survey of Enterprise Managers*) (Beijing: Guowuyuan, 1993–97).

14. Among the high profile cases are those at the Capital Iron & Steel Co., the Hongta Group and the Changjiang Power Supply Company. See *Liaowang* (*Outlook Magazine*), No. 12 (1996); *Mingbao* (*Ming Pao Daily*), 19 April 1999; and *RMRB*, 26 January 1998.

15. *RMRB*, 27 September 1999.

16. Starting from 1995, the government has pursued an SOE reform strategy known as *zhua da fang xiao* – holding on to large enterprises and letting go small ones. Its essence is to confine the restructuring of large SOEs to limited liability companies or limited liability stock companies while allowing small SOEs to be turned into more diverse organizational forms, such as employee shareholding co-operatives and private enterprises. See *RMRB*, 12 November 1995, 27 September 1999.

versus provincial government or an authority designated by the State Council), thirdly the number of shareholders (2–49 versus 50 or above), and finally the liquidity of shares – only the shares of the latter can be traded on stock exchanges, where only those with equity capital of over 50 million *yuan* are eligible for listing. The shares of both types of organization are classified into five categories: state-owned, institution-owned, individual-owned, collective-owned and foreign-owned. The first two categories have not been allowed to be traded on stock exchanges, and their transfer requires special approval from the government.[17]

Employee shareholding co-operatives are limited liability entities owned wholly or predominantly by the majority or all of their employees, individually (through shares issued to individuals) or collectively (through "collective shares"). There is no minimum equity capital requirement. The shares for individual holding can only be issued to enterprise employees, who may receive dividends in addition to their regular wages. Unlike the above two types of companies where shareholder voting is based on the "one share one vote" principle, shareholder voting in employee shareholding co-operatives is based on a "one person one vote" principle.[18]

Private enterprises refer to private sole proprietorships, partnerships and entirely privately owned limited liability companies. Strictly speaking, only the latter two are shareholding enterprises.[19] The first two organizational forms are not limited liability entities.[20] There is no minimum equity capital requirement for their formation. In the case of partnerships, decision rules are determined by the partners. In some cases the transfer of property rights from the supervising authorities of SOEs to private owners may not be complete.[21] The latter may only inherit the liabilities, and purchase the equipment, machinery and other movable assets, of the old enterprises while leasing the land and factory buildings from the government.

It is important to note that there is a difference between the above described organizational forms that SOEs are restructured into and the means through which ownership restructuring is carried out. The latter includes such measures as arranged sale, auction, merger, bankruptcy, leasing and so on.[22]

17. *RMRB*, 3 August 1998, 1 February 1999.
18. *RMRB*, 7 August 1997, 2 September 1998.
19. Given the limited significance of private enterprises as an alternative form of SOEs' organizational restructuring, to be shown below, the aberration represented by private sole proprietorships does not appear to have seriously distracted the reform's focus on shareholding.
20. This may be a reason why some de facto private enterprises have been disguised as employee shareholding co-operatives. See *RMRB*, 8 August 1997.
21. *RMRB*, 8 August 1997.
22. For detailed discussions of these measures, see Zhou Ningyuan, "Gufengzhi he gushi shidian licheng yu zhanwang" ("Experimenting with the shareholding system and the stock market: progress and prospect"), *Jingji gongzuozhe xuexi cailiao* (*Study Materials for Economists*), No. 15 (1998), pp. 16–25.

SOEs' Institutional Pedigree

While the government has sought to turn increasing numbers of SOEs into the above organizational forms, this undertaking is conditioned by legacies that SOEs have carried over from the central planning era. SOEs have been touted by CCP leaders as the leading force of China's socialist development. Despite the abandonment of central planning and greater allowance for private economic activities since 1992, the ideological concern about the erosion of public ownership (hence socialism) has continued to cast a shadow over the extent to which reform can proceed.[23] The official line is that China's "socialist market economy" should be based on diverse forms of public ownership rather than private enterprises, which are regarded as the least favoured form of organizational restructuring for SOEs.[24] The guiding principle for ownership restructuring, therefore, is to make the state the holder of a controlling interest – through state asset management entities, state-owned institutions or a combination of both – in restructured enterprises, especially the large ones.[25]

Ownership restructuring also poses a potential threat to vested interests in the state bureaucracy. Under the existing system,[26] supervising agencies of SOEs derive much of their resources and power on the basis of the control over their subordinate enterprises; they also lay various ad hoc claims on the revenues of these enterprises. Restructuring SOEs from sole proprietorships under the purview of industry-specific agencies into shareholding enterprises under the purview of independent entities of state asset management may significantly reduce these traditional ties. Until recently,[27] the new system has been designed to transfer the supervision authority over state assets in restructured enterprises to agencies that specialize in state asset management or to a small number of very large enterprises or enterprise groups that remain completely state-owned.[28] Given the resolve of the central leadership to push through the reform, open resistance seems politically risky for existing supervising authorities of SOEs. But they may seek to retain their power in

23. For a discussion of the ideological debates on the desirability of majority ownership by the state, see Zhang Zhuoyuan, "Guanyu dangqian jingji xingshi he guoyou qiye gaige wenti" ("On the current economic situations and issues of state-owned enterprise reform"), *Jingji shehui fazhan yanjiu* (*Economic and Social Development Research*), No. 1 (1999), pp. 3–10.

24. *RMRB*, 5 August 1998.

25. A claim that has often been made to justify the dilution of strict state ownership is that by maintaining a controlling interest in a restructured enterprise, the state in fact expands its influence over economic activities by bringing under its control the use of additional amounts of capital. See *RMRB*, 26 August 1997 and 1 February 1999.

26. Granick, *Chinese State Enterprises*; Lardy, *China's Unfinished Revolution*; Steinfeld, *Forging Reform in China*; Andrew Walder, "Local bargaining relationships and urban industrial finance," in Kenneth G. Lieberthal and David M. Lampton (eds.), *Bureaucracy, Politics, and Decision-making in Post-Mao China* (Berkeley & Los Angeles: University of California Press, 1994), pp. 308–333.

27. See the last section of the article for a discussion of the changes in this regard during the past two years.

28. *RMRB*, 12 November 1995, 27 September 1999.

various ways, such as creating administrative hurdles, twisting the rules governing restructured enterprises, forming holding companies disguised as "independent" state asset management entities, and taking stakes in restructured enterprises through institutional and even individual investors that they control.[29] These attempts may complicate the reform process and affect the resultant organizational features of restructured enterprises.

Moreover, the reform has also had to deal with significant financial and personnel liabilities that large numbers of SOEs have cumulated over time. Ownership restructuring entails a thorough assessment of the value of the enterprises concerned and a reallocation of their financial liabilities. Determining the terms for the transfer of such liabilities involves negotiations among multiple parties, including the existing and prospective stakeholders and creditors (such as banks, state agencies and other predominantly state-owned institutional lenders). Thus far the government has not spelled out a set of uniform policies with regard to the financial liabilities of SOEs. Measures proposed by Chinese economists include standardizing bankruptcy procedures, encouraging mergers and acquisitions, and optimizing capital structure by lowering debt level through debt-equity swaps and debt forgiving.[30] In practice, some enterprises have been treated more leniently in debt payment and restructuring, and the number of enterprises selected for such special treatment has varied because of inconsistencies in the criteria used and ad hoc bargaining.[31] The uncertainties fostered in this policy environment are likely to lead the parties involved to diverse expectations about how their interests may be accommodated or affected in the restructuring process, posing a major obstacle to consensus building in multilateral negotiations. SOEs

29. For discussions of how SOEs' supervising authorities twisted the rules of restructuring to accommodate their own interests, see He Qinglian, *Xiandaihua de xianjing* (*Pitfalls of Modernization*) (Beijing: Jinri Zhongguo chubanshe, 1998).

30. There has been a heated debate among Chinese economists as well as policy makers as to how to solve the debt problem in the state sector. For a collection of articles on the issue, see Chi Fulin *et al.*, *Zhaiwu yu guoyou qiye gaige* (*Debt and SOE Reform*) (Beijing: Mingzhu yu jianshe chubanshe, 1996). In an effort to recapitalize state banks and alleviate the debt burdens of SOEs, Chinese government has recently decided to create asset management companies (AMCs) to take over some of the bad loans of state commercial banks and to carry out a debt-equity swap plan for selected SOEs. The first move was made by the Construction Bank with the establishment of the Xinda AMC in 1999 (*RMRB*, 2 April 1999). In 1999 a total of 601 SOEs (mostly large enterprises) were authorized to participate in the debt–equity swap scheme, and the total amount of debt involved was 460 billion *yuan* (*RMRB*, 26 January 2000). However, some economists are sceptical about the plan and argue that it may simply become an accounting game or even a debt amnesty without improving performance of SOEs, and that AMCs themselves are also subject to incentive problems. See, for example, Wu Youchang and Zhao Xiao, "Zhai zhuan gu: jiyu qiye zhili jiegou de lilun yu zhengce fengxi" ("Debt-equity swap: theory and policy analysis based on corporate governance structure"), *Jingji yanjiu* (*Economic Research Journal*), No. 2 (2000), pp. 26–33.

31. In 1998 a total of 40 billion *yuan's* "bad loan" was written off, mainly to help "key enterprises" and those in "key sectors" (*RMRB*, 1 December 1998). In 1996 300 "key enterprises" were identified by the central leadership for preferential treatment; in 1997 the number increased to 512; and by the end of 1998 the cumulative amount of write-offs was 90 billion *yuan*, and the SOEs receiving such treatment totalled 5,800. See *RMRB*, 5 January 1999.

with heavy debt and uncertain prospect for debt relief thus tend to be slow movers in the reform.

As to the obligations to employees, organizational restructuring of SOEs has taken place in a situation where a social security system separate from enterprises has yet to be fully established and financially self-sustainable. A major legacy of the central planning system is that SOEs are the only source for the provision of employees' basic social welfare benefits, such as health care, pension, employment security and housing.[32] Since 1986, reforms have been carried out to shift such provision to a set of socialized schemes (known as *shehui tongchou*) based on funds contributed primarily by enterprises. But these reforms have been slow and complicated by many problems,[33] such as inadequate funds,[34] uneven paces and abilities of participation by SOEs,[35] and inconsistencies and conflicts within and between different fund management authorities.[36] This situation, coupled with growing surplus labour (*fuyu zhigong*) in the state sector in the 1990s, has led to the creation of a new category in the work force,[37] known as *xiagang zhigong* or employees removed from active duty.[38] Their jobs have been eliminated, but they are not formally laid off. They remain as personnel for whom their enterprises are obliged to provide minimal pay and placement services.[39]

32. Unlike rural residents working in the urban sector who can return to their home villages and survive on the land contracted to their households during decollectivization in the early 1980s, urban residents employed in the state sector have to rely entirely upon their employers and ultimately the government for the provision of the basic means of living in case of retirement and job loss.

33. For discussions about the problems in the pension scheme and the new social security system in general, see Athar Hussain, "Social security in present-day China and its reform," *American Economic Review Papers and Proceedings*, Vol. 84 (May 1994), pp. 276–280; Hu Xiaoyi, "Reducing state owned enterprises' social burdens and establishing a social insurance system," in Harry G. Broadman (ed.), *Policy Options for Reform of Chinese State-Owned Enterprises*, World Bank Discussion Paper No. 335, 1996, pp. 125–148; Loraine A. West, "Pension reform in China: preparing for the future," *Journal of Development Studies*, Vol. 35 (1999), pp. 153–183.

34. By the end of 1997, 75% of SOE employees and 82% of SOE retirees had been enrolled in the pension scheme; but 53% of the enrolled retirees drew pensions that exceeded the contributions that their enterprises had made to the scheme. The gap was made up by using the temporary surplus from those that had made contributions but had yet to retire. See Guojia tongji ju, *Zhongguo laodong tongji nianjian 1998* (*China Labour Statistical Yearbook 1998*) (Beijing: Zhongguo tongji chubanshe, 1998), p. 459.

35. This problem is particularly acute in the unemployment fund and the health care fund, where the gap between contributions received and spending has been much wider than that in the pension scheme. See *RMRB*, 27 February 1999.

36. See *RMRB*, 12 April 1999.

37. See *RMRB*, 23 June 1998.

38. By increasing the number of *xiagang zhigong* SOEs can reduce their wage bills to certain extent. But it is important to note that *xiagang zhigong* are not identical to workers who are laid off (*citui*), as the former employers of the latter have no obligation to provide them with any minimal pay, benefits or placement services. *Xiagang zhigong* should also not be confused with two other categories: *fuyu zhigong* (surplus employees), which refers to those in the workforce that cannot be fully utilized by their enterprises and probably include *xiagang zhigong*; and *shiye jumin* (unemployed residents), which refers to people who are jobless and not affiliated with any organizations.

39. By the end of 1998 there were 6 million *xiagang zhigong* in SOEs. For more details regarding the obligations of SOEs for their *xiagang zhigong*, see *RMRB*, 23 June 1998, 2 September 1998, 4 November 1998, 17 June 1999.

In the organizational restructuring of SOEs, their new owners are in principle required by the government to inherit the entire labour force (including *xiagang zhigong*) and their social welfare provisions (including contributions to various social security funds).[40] There exist uncertainties regarding the time and resources needed for the placement of employees removed from active duty. Moreover, the process of restructuring involves a number of government agencies that often have different priorities in decision making.[41] Supervising agencies of SOEs may be more inclined to transfer at a discount subordinate enterprises with heavy personnel liabilities, but the state asset management authority tends to focus on preserving the value of state assets. The labour department emphasizes adequate provision of basic support for *xiagang zhigong*, whereas the fiscal authority often seeks to minimize its obligation in providing subsidies for the accommodation of employees removed from active duty. Finding the "right price" for an enterprise with large numbers of surplus workers, therefore, is often not a straightforward matter. As a result, variations in personnel liabilities may have an important impact on the pace of reform among different SOEs.

Data

Despite some dissenting voices,[42] the majority view among Chinese economists and policy makers appears to be in favour of ownership restructuring.[43] There is a large Chinese-language literature on its importance, institutional design and strategies.[44] But research on the actual process and outcome of restructuring is rather sparse. The analysis offered below is intended to narrow this gap. The focus is how the influence of the factors discussed in the preceding section has manifested in the initial process of ownership restructuring and what changes have been brought about in the organizational structure of restructured enterprises.

The data analysed are from a questionnaire survey on the restructuring of industrial SOEs conducted by the State Statistical Bureau in the summer of 1998. Its aim was to examine how ownership restructuring

40. *RMRB*, 23 December 1998.

41. For discussions of the conflicting agenda and interests of various government agencies involved in the restructuring process, see *RMRB*, 8 August 1998, 24 July 1999.

42. See, for example, He Qinglian, *Pitfalls of Modernization*.

43. See Zhang Wenmin *et al.* (eds.), *Zhongguo jingji da lunzhan* (*The Great Debate on the Chinese Economy*) (Beijing: Jingji guanli chubanshe, Vol. 1, 1997; Vol. 2, 1997; Vol. 3, 1998) for a collection of excerpts of numerous academic as well as newspaper articles on the SOE reform.

44. For a sample of the views held by prominent Chinese economists on the rationale and the design of the ownership restructuring strategy, see Wu Jinglian, *Xiandai gongsi yu qiye gaige* (*Modern Corporations and Enterprise Reform*) (Tiangjin: Tianjin renmin chubanshe, 1994), Wu Jinglian, Zhou Xiaochuan, Rong Jinben *et al.*, *Jianshe shichang jingji de zongti gouxiang yu fangan sheji* (*A Comprehensive Scheme and Design for the Establishment of the Market Economy*) (Beijing: Zhongyang bianyi chubanshe, 1996), and Li Yining, Cao Fengqi and Zhang Guoyou, *Zengyang zujian gufengzhi yu gufenf hezuozhi qiye* (*How to Set Up Joint Stock Enterprises and Joint Stock Co-operatives*) (Beijing: Beijing daxue chubanshe, 1998).

had proceeded among industrial SOEs between the 14th CCP Congress in 1992 and the 15th in 1997.

The survey took the form of a two-part questionnaire.[45] The first part contained questions about: the basic profile of the enterprise (enterprise code, sector, location and size); the process of enterprise restructuring (such as whether steps had been taken for ownership restructuring, what new organizational form was adopted, why restructuring had not been started); and the personal profile of the top manager (age, gender, professional title, education, past occupation and area of highest training received). These questions were posed to all the enterprises surveyed. The second part of the questionnaire contained a set of questions about enterprise finance (assets, liabilities, equity, sales, interest payment, profits, taxes and number of employees) for 1997 and the first quarter of 1998, and 53 questions about various aspects of restructuring, such as governance structure, insider stake holding and assessment of the initial outcome of restructuring. These questions were posed to the top managers of the SOEs that had undertaken restructuring.

A total of 40,238 industrial SOEs responded to the survey,[46] equivalent to 62 per cent of the total number of industrial SOEs that were in operation in that year.[47] All the industrial sectors and all the provinces and centrally administered municipalities were represented in the responses. Some 8,709 of the enterprises that responded to the survey indicated that they had been authorized to restructure their property right arrangements; 6,872 of these enterprises (17 per cent) indicated they had completed the restructuring at the time of the survey.

From the responses in the survey three sets of data are separated for analysis. The first set, referred to below as "data set I," contains responses provided by 40,238 enterprises with regard to part one of the questionnaire. The second set, "data set II," contains responses from the 6,872 restructured enterprises. The scope of the questions answered includes those in data set I, as well as the questions concerning enterprise finance in part two of the questionnaire. Some of the enterprises that had not started or completed restructuring also provided information on enterprise finance – either voluntarily or by mistake. Such information is treated as "windfall" data and left in data set I. Where appropriate, we make use of it for comparisons with restructured enterprises. The third set, "data set III," contains responses from 2,632 restructured enterprises.[48]

45. A copy of the questionnaire can be supplied upon request.

46. Judging from the circular (No. 72, 1998) issued by the State Statistical Bureau with regard to the survey, the questionnaire appears to have been sent to all industrial SOEs.

47. *Statistical Yearbook 1999*, p. 421.

48. According to the sampling scheme specified in the circular concerning the survey, a stratified sample of 3,150 enterprises (on average 100 per province) was drawn from the restructured enterprises for answering detailed questions about ownership restructuring in part two of the questionnaire. 2,632 of the target enterprises provided answers, yielding a response rate of 84%.

Table 2: **Information Contained in Data Sets**

Information contained	*Data set I (n = 40,238)*	*Data set II (n = 6,871)*	*Data set III (n = 2,632)*
Part I of survey (for all enterprises surveyed)			
(1) Enterprise profile (code, sector, location, size)	✓	✓	✓
(2) 11 questions on whether and how restructuring had been carried out	✓	✓	✓
(3) Profile of top manager (age, gender, professional title, education, past occupation, area of highest training received)	✓	✓	✓
Part II of survey (for enterprises that had competed restructuring)			
(1) Basic accounting information (assets, equity, liabilities, interest payment, sales, profit/loss taxes, workforce)	✓/x*	✓	✓
(2) 53 questions about various aspects of restructuring (e.g. governance structure, insider stake-holding, assessment of the initial outcome of restructuring)	x	x	✓

Note:
*Some of the enterprises that were not required to provide such information responded, either voluntarily or by mistake, to some of the questions in this section. There are, however, significant variations in the rate of response to different questions.

It includes responses to all the questions in data sets I and II, and responses to 53 questions in part two of the questionnaire. Table 2 provides a summary of the information contained in the three data sets.

It should be noted that, although the response rate of the survey was fairly high,[49] we do not know how quality control with regard to randomness and representativeness was enforced during the survey.[50] Among the questionnaires completed (especially those in data set I), there were non-trivial inconsistencies,[51] and the rate of response also varied greatly among different questions, as can be seen from the numbers of cases reported in Tables 3–13. Moreover, the survey was not designed to

49. A possible reason for such high response rate is that SOEs are obliged to respond to the Statistical Bureau's request for information. At the top of the questionnaire, Article 3 of the Statistics Law is printed, which requires government agencies, social organizations, enterprises, and individuals to provide truthful information requested by the State Statistical Bureau.

50. The survey was administered by the survey teams of provincial statistical bureaus.

51. Before performing data analysis, we checked all the data points. Those containing inconsistencies and entry errors were turned into missing values.

address many of the questions that we would like to clarify. In view of these limitations, this article focuses on the part of the data that seems to be by and large consistent and is useful for understanding the forces that have shaped the initial process of ownership restructuring. In light of knowledge based on other sources of information, some inferences are made about what the evidence reveals. The findings are not claimed to be conclusive. In fact they pose more questions than answers, and thus should be seen as preliminary clues that may inform further investigation into the ongoing transformation of China's state sector economy.

Main Findings

The main method used to analyse the data is computation of frequency distributions for categorical variables and average and proportional values for interval variables. The analysis focuses on six important areas: the process of restructuring, profile of restructured enterprises, ownership structure, financial and personnel liabilities, governance, and enterprise leaders' perceptions of the outcome of restructuring. The results are tabulated primarily according to the organizational forms used by the government to categorize different types of enterprises in the latest reform. Where data permit, we also perform some multivariate analyses. It should be noted, however, that such analyses are greatly limited by the type and amount of information available in the data sets, and they are largely exploratory rather than confirmatory, as the data were not designed for hypothesis testing with regard to certain pre-defined research questions.

Process of restructuring. As can be seen from Table 3, the pace of restructuring varied among industrial SOEs. Some 17.1 per cent of the enterprises in the sample had completed restructuring, and 4.2 per cent had obtained approval for their restructuring plans. Some 52.1 per cent had not taken any concrete action for restructuring, though over half of them indicated an inclination to do so. There appears to be no distinct pattern of difference between the fast and slow movers in terms of enterprise size, though fast movers were more represented in non-coastal provinces. Other than those that had no plan to reform, there was a general consensus that restructuring was important. What, then, affected their differences in the pace of reform?

Two factors were commonly identified by the slow movers as the most important constraints: large numbers of surplus labour and heavy debt. The third ranking factor is "poor technology and inability to compete," a problem that is not necessarily unique to SOEs. As to those that had no plan to reform, they appear to fall into three quite different groups: those that faced the same constraints as the slow movers, as indicated by the sizeable number of enterprises identifying "surplus

Table 3: **Profile of Enterprises in Different Stages of Restructuring**

Indicators	*Restructuring completed*	*Restructuring plan approved and ready to be implemented*	*Restructuring plan pending approval*	*Restructuring plan under design*	*Inclined to restructure but no concrete plan yet*	*No plan to restructure*	*Total*
(1) number of responses	6,872 (17.1%)	1,692 (4.2%)	3,094 (7.7%)	7,643 (19.0%)	10,933 (27.2%)	10,004 (24.9%)	40,238 (100%)
(2) % of those located in coastal provinces	40.3 (n = 6,856)	37.8 (n = 1,688)	42.1 (n = 3,089)	44.9 (n = 7,626)	48.8 (n = 10,922)	52.2 (n = 9,980)	
(3) % of those categorized as "small enterprises"	74.2 (n = 6,872)	70.3 (n = 1,692)	68.8 (n = 3,094)	70.3 (n = 7,643)	75.1 (n = 10,933)	83.5 (n = 10,004)	
(4) % of those regarding restructuring as							
unimportant	6.3	4.5	2.6	2.7	3.5	46.3	
necessary	62.5	52.5	47.6	60.1	72.4	44.3	
badly needed	32.2	43.0	49.8	37.2	24.1	9.5	
	(n = 6,713)	(n = 1,676)	(n = 3,090)	(n = 7,603)	(n = 10,929)	(n = 9,962)	
(5) Top 3 constraints on restructuring	–	–	surplus labour (40%) heavy debt (19%) poor technology and inability to compete (11%) (n = 2,991)	surplus labour (39%) heavy debt (18%) poor technology and inability to compete (11%) (n = 7,437)	surplus labour (37%) heavy debt (18%) poor technology and inability to compete (11%) (n = 10,838)	performing well in current system and hence no need for change (22%) surplus labour (21%) situated in special sector not suitable for reform (19%) (n = 9,867)	

Notes:
(1) The differences in the number of enterprises under each category are due to variations in the rate of response to different questions. The same is true for other tables.
(2) The Chinese government classifies industrial enterprises into four size groups: "very large," "large," "medium" and "small." The criteria for such classification are industry-specific rather than based on some common indicators (such as capital and labour) that apply equally to all industries. For details, see Guojia tongji ju, *Gongye tongji zhuyao zhibiao jieshi* (*Explanatory Notes on Major Statistical Indicators for the Industrial Sector*) (Beijing: Zhongguo chengshi chubanshe, 1993), pp. 299–330.
Source:
1998 survey data set I.

Table 4: **Maximum Likelihood Estimates for Logistic Regression of Different SOEs' Paces of Restructuring**

Independent variables	*Parameter estimate*	*Standard error*	*Odds ratio*
Percentage of *xiagang zhigong*	− 0.77*	0.09	0.46
Debt-equity ratio	− 0.29*	0.04	0.75
Ratio of pre-tax profit to assets	0.53*	0.16	1.71
Location in coastal province	− 0.65*	0.05	0.52
Dummy variables for enterprise size			
very large	0.32	0.26	1.38
large	− 0.08	0.07	0.92
medium	− 0.02	0.06	0.98
(with reference to "small")			
Dummy variables for industrial sector (n = 37)	not shown	–	–
− 2 log-likelihood	20,617	–	–
χ^2	830*	–	–
Number of cases	7,764	–	–

Notes:
*p < 0.01
Source:
1998 survey data set I.

labour" as the top obstacle; those that were content with the existing system; and those that were in industrial sectors where special policies restrained restructuring.[52]

To ascertain the effects of financial and personnel constraints,[53] a logistic regression of the pace of restructuring is performed. Using the information provided by the enterprises with regard to their stages of restructuring, we construct a dependent variable on an ordinal scale, ascending from "no plan to reform" (slowest) to "restructuring completed" (fastest). We then regress it on the percentage of *xiagang zhigong*, debt-equity ratio, rate of return,[54] and a number of control variables, including location, size and industrial sector.[55] The results, presented in

52. A further analysis of the data reveals that 52% of those choosing the third ranking answer (n = 2,907) were in coal mining, production and supply of water, gas and electricity.

53. The data set does not contain any information that can be used to construct proxies for technological sophistication and competitiveness.

54. Since the overwhelming majority of those that had completed restructuring did so during 1997–98, we do not expect their financial performance to have been significantly different from that for the time when restructuring decisions were made.

55. The purpose of including dummy variables for industrial sector is to avoid possible distortions created by sectoral variations. For convenience, we use coal mining as the reference sector. Since in this article we are not interested in examining the variations between a particular sector and the other sectors in the industrial economy, we do not present in the table the results on sectoral dummies. The same method is used in the presentation of regression results in other tables.

Table 4, show that those with relatively low percentages of *xiagang zhigong*, low debt-equity ratios and high rates of return were indeed more likely than otherwise to be among the fast movers.

The restructuring of SOEs involves the use of a variety of methods, as shown in Table 5. For those turned into limited liability companies, limited liability stock companies and employee shareholding co-operatives, the most commonly used method was to divide, after an assessment,[56] the bulk or all of the old enterprises' assets into shares and sell them to insiders (managers and ordinary employees) and outsiders. This is not the case, however, for those turned into private enterprises, which used methods that probably resulted in less dispersed ownership stakes. The most extensively used method was leasing, followed by auction and managerial contract with collateral. Among these methods, only auction (of the enterprise to a new owner or a limited number of new owners) leads to full private ownership. It is not clear why those adopting the other two methods were categorized as private enterprises and whether the contractual forms used were transitional measures for their eventual conversion into private ownership. The "other" category is not a clearly defined institutional arrangement. Findings in the table show that the majority of these enterprises were restructured through leasing, managerial contract with collateral and merger. It is not clear how the use of the first two methods by these enterprises differs from that by those categorized as "private enterprises." These enterprises are included in the data analyses to illustrate the full spectrum of organizational forms adopted in restructuring and to provide a reference group for comparisons.

Profile of restructured enterprises. Table 6 shows three important features of restructured enterprises. First, private enterprise, which accounted for only 7.1 per cent of the restructured enterprises, was the least favoured organizational form for restructuring. Moreover, those turned into private enterprises were predominantly small enterprises.

Secondly, the process of restructuring appears to be largely controlled by local – sub-provincial – authorities. Provincial or higher level authorization was obtained for less than 10 per cent of the cases reported here. What is notable is that, although the Company Law requires such authorization for all limited liability stock companies, 62.5 per cent of such companies in the sample were allowed to be formed without it.

Thirdly, the overwhelming majority of those in the sample completed their restructuring during 1997–98. Although the reform was started in 1993, it seems clear that a major boost came from the 15th Congress of the CCP in 1997, which further clarified the direction of reform and set a timetable aimed at moving SOEs out of their plight within three years.

56. 82% of the respondents in data set III indicated that they went through such assessment during restructuring.

Table 5: **Methods of Restructuring (%)**

		All	*Limited liability stock companies*	*Limited liability companies*	*Employee share-holding companies*	*Private entities*	*Other*
(1)	Turning productive assets into shares and selling them to inside and outside shareholders	22.2	48.0	28.3	24.8	0.4	1.3
(2)	Turning all assets into shares and selling them to inside and outside shareholders	15.4	14.9	17.6	35.0	3.3	0.7
(3)	Turning part of assets into shares, selling them to employees and leasing remaining assets to new enterprise	4.0	2.8	4.6	8.3	1.4	0.9
(4)	Turning part of assets into state-owned shares, selling part of shares to employees, and leasing the remaining assets to new enterprise	1.1	0.5	1.4	2.2	0.6	0.1
(5)	Auction	3.8	1.4	2.2	0.7	29.4	2.1
(6)	Breaking up and re-organizing enterprise	6.0	6.2	7.9	5.3	0.4	4.5
(7)	Merger	9.4	7.1	10.0	1.3	3.5	17.5
(8)	Forming joint venture	2.5	3.7	3.7	0.8	0.0	1.6
(9)	Reorganization after bankruptcy	4.9	2.8	6.1	4.5	3.1	4.3
(10)	Leasing	11.4	2.4	4.9	4.9	36.8	25.9
(11)	Managerial contract with collateral	7.0	2.0	2.1	3.3	11.5	20.9
(12)	Trust	1.5	0.8	1.1	0.7	1.2	3.6
(13)	Other	10.9	7.4	10.2	8.2	8.2	16.9
		n = 6,863	n = 787	n = 3,001	n = 1,113	n = 486	n = 1,476

Source:
1998 survey data set II.

Table 6: **Profile of Restructured Enterprises**

Organizational form	*% in total number of restructured enterprises*	*% of those approved by provincial or higher level authorities*	*% of those categorized as "small" enterprises"*	*% of those completing restructuring in 1997–98*
(1) Limited liability stock companies (n = 788)	11.5	37.2	54.1	86.3
(2) Limited liability companies (n = 3,006)	43.7	7.9	66.5	93.4
(3) Employee shareholding co-operatives (n = 1,114)	16.2	0.7	88.4	94.0
(4) Private enterprises (n = 486)	7.1	0.0	92.0	94.2
(5) Other (n = 1,477)	21.5	3.9	84.2	89.9
(6) All (n = 6,871)	100.0	8.6	74.2	92.0

Source:
1998 survey data set II.

Ownership structure. An issue of interest to both policy makers and researchers is the extent of state ownership and private stake holding in enterprises restructured into different organizational forms. Findings presented in Tables 7–9 cast some light on this.

First, state ownership remained dominant in limited liability stock companies, limited liability companies, and enterprises in the "other" category, as can be seen from Table 7. The identities of those labelled as "institutional owners" are not known, though the overwhelming majority of them are reported to be state-owned entities.[57] If this were the case for the enterprises included in the sample, the significance of state ownership would be even greater. Also, the state maintained sizeable shares in quite a number of those registered as "employee shareholding co-operatives."[58] Moreover, even some of those labelled "private enterprises" had their majority shares held by the state. We cannot fully explain what caused this puzzling phenomenon. A clue, though, can be found in the way these

57. *RMRB*, 21 June 1999.

58. The fact that the state held more than 50% of the equity shares in one-fourth of the employee co-operatives is an aberration from the principle that these entities should be predominantly owned by their employees, though the state can hold equity shares in these enterprises. See *Provisional Guidelines for the Development of Urban Employee Shareholding Cooperatives*, China Law Data Bank (National People's Congress, 1998).

Table 7: **Distribution Patterns of Controlling Shares after Restructuring**

	% of enterprises with more than 50% of equity capital held by the owners listed below								*% of enterprises without more than 50% of shares held by a single type of owner*	
	State (represented by state asset management agencies/companies)		*Institutional owners*		*Private owners (including foreigners)*		*Collective owners*			
Organizational form	*1997*	*1998*	*1997*	*1998*	*1997*	*1998*	*1997*	*1998*	*1997*	*1998*
(1) Limited liability stock companies (n = 514, 1997; n = 498, 1998)	59.3	57.6	12.3	12.4	20.6	22.7	1.6	1.8	6.2	5.5
(2) Limited liability companies (n = 1,912, 1997; n = 1,931, 1998)	58.5	53.2	12.4	12.6	23.0	27.4	2.5	2.6	3.6	4.2
(3) Employee shareholding co-operatives (n = 722, 1997; n = 710, 1998)	25.2	23.9	3.3	3.7	40.6	48.7	5.6	7.5	25.3	16.2
(4) Private enterprises (n = 229, 1997; n = 216, 1998)	11.3	7.4	3.4	3.8	73.2	83.9	0.4	0.9	11.7	4.0
(5) Other (n = 723, 1997; n = 686, 1998)	87.6	85.0	7.2	7.1	3.7	4.5	1.7	2.6	0.0	0.8
(6) All (n = 4,100, 1997; n = 4,041, 1998)	58.2	53.5	9.3	9.7	23.2	27.6	2.7	3.3	6.6	6.1

Note:
Only those that provided full and consistent information on ownership structure (i.e., the sum of the equity shares from all five categories equals the total amount of equity shares of the enterprise) are included in this table.
Source:
1998 survey data set II.

enterprises were restructured: a cross tabulation of the data reveals that they either took the form of leasing or managerial contract with collateral. It is possible that a significant part of the assets (especially land use rights and factory buildings) leased or contracted to the new enterprise leaders during restructuring was still counted as being owned by the state.

Secondly, although only a relatively small number of restructured enterprises were private enterprises, there was significant private stake holding in limited liability stock companies, limited liability companies and employee shareholding companies. Furthermore, with the exception of those in the "other" category, insider shareholding was adopted by over 60 per cent of the restructured enterprises, as can be seen from Table 8.[59] Not only the top manager but also large numbers of middle managers and ordinary employees became stakeholders. Although the average stake held by the top manager in restructured enterprises was 2.4 per cent in early 1998, 11.2 per cent held 1–5 per cent of the shares of their enterprises and 11.1 per cent held more than 5 per cent of such shares.[60] Interestingly, compared to limited liability stock companies, limited liability companies and employee shareholding co-operatives, private enterprises had a much lower average level of equity shares held by employees. This suggests that the top manager, who was most likely to be the main owner, had tight control over the private shares of the enterprise.

Thirdly, to explore what shaped the ownership compositions of restructured enterprises, we perform two regression analyses. The response variables are the percentage of state-owned equity shares and the percentage of insider-held equity shares.[61] They are regressed on the same set of independent variables,[62] presented in Table 9.[63]

The results show that state ownership tended to be more significant in enterprises that had heavier personnel liabilities (as indicated by relatively high percentages of *xiagang zhigong*) and were restructured through methods other than auction, which tends to result in most complete private ownership. Not surprisingly, those with a relatively low percentage of state-owned shares tended to be small in size and registered as private enterprises. But the level of financial debt, the rate of return,

59. Curiously, about 20% of the employee shareholding co-operatives had no private shares held by their employees. A possibility is that employees' stakes were represented by "collective shares." It is puzzling, however, that nearly 5% of the private enterprises in data set II did not report any insider shareholding.

60. Information on the percentage of shares held by different groups of employees was not requested in the survey questionnaire.

61. The Pearson correlation between them is 0.52 ($p < 0.01$).

62. Part of the purpose to do so is to see whether the effects of the same independent variables are similar with regard to the two rather closely correlated dependent variables.

63. The first four variables, along with the dummy variables for enterprise size and industrial sector, are included in the logistic regression reported in Table 4. "Use of auction in restructuring" is a dummy variable constructed by coding those using this method as "1" and those using other methods as "0." "Level of approval for restructuring" has a 3-level scale: "0" for "sub-provincial," "1" for provincial," and "2" for "central." "Recency of restructuring" refers to the year when restructuring was completed, ranging from 1993 to 1998.

Table 8: **Equity Shares held by Insiders of Restructured Enterprises**

	All	*Limited liability stock companies*	*Limited liability companies*	*Employee share-holding companies*	*Private entities*	*Other*
(1) % of enterprises with insider shareholding	52.3 (n = 6,871)	67.3 (n = 788)	62.4 (3,006)	78.9 (n = 1,114)	95.3 (n = 486)	16.9 (n = 1,477)
(2) % of enterprises with equity shares held by						
top manager	58.1	81.5	61.7	88.8	100	4.3
middle managers	56.1	77.1	59.0	87.7	7.3	3.7
ordinary employees	56.1	76.8	58.8	87.7	7.3	4.3
	(n = 2,596)	(n = 297)	(n = 1,377)	(n = 465)	(n = 110)	(n = 347)
(3) Average % of equity shares held by top manager (n = 2,519)	2.4	2.2 (n = 293)	2.4 (n = 1,369)	3.6 (n = 463)	48.1 (n = 110)	0.2 (n = 347)
(4) Size of equity shares held by top manager (%)						
under 1%	77.7	80.2	77.8	56.2	0	99.1
1–5%	11.2	12.6	10.1	25.7	18	0.9
above 5%	11.1	7.2	12.1	18.1	82	0
	(n = 2,616)	(n = 293)	(n = 1,369)	(n = 463)	(n = 108)	(n = 347)

Source:
1998 survey data set II for (1); 1998 survey data set III for (2)–(4).

Table 9: **Ordinary Least Squares Estimates for Regression of the Percentages of Equity Shares held by the State and Insiders**

	% of state-owned shares		% of insider-owned shares	
Independent variables	*Parameter estimate*	*Standard error*	*Parameter estimate*	*Standard error*
Percentage of *xiagang zhigong*	0.07*	0.03	0.04	0.04
Debt-equity ratio	− 0.01	0.02	0.04*	0.02
Ratio of pre-tax profit to assets	− 0.01	0.05	0.60**	0.18
Location in coastal province	− 0.04	0.01	− 0.05*	0.02
Use of auction in restructuring	− 0.17**	0.06	0.19**	0.06
Level of approval for restructuring	− 0.004	0.01	− 0.05**	0.009
Recency of restructuring	0.002	0.007	0.03**	0.009
Dummy variables for enterprise size				
very large	0.14**	0.06	− 0.22*	0.10
large	0.09**	0.02	− 0.17**	0.03
medium	0.04**	0.02	− 0.11**	0.02
(with reference to “small”)				
Dummy variables for organizational form				
limited liability company	0.26**	0.07	− 0.12*	0.06
limited liability stock company	0.33**	0.06	− 0.11*	0.06
employee shareholding co-operative	0.29**	0.07	− 0.01	0.06
other (with reference to private enterprise)	0.59**	0.06	− 0.29**	0.07
Dummy variables for industrial sector (n = 36)	not shown	–	–	–
R^2	0.151	–	0.144	–
Number of cases	2,499	–	2,153	–

Notes:
*p < 0.05; **p < 0.01.
Source:
1998 survey data set II.

the level of approving authority and the time of completing restructuring do not show a significant effect on the degree of state ownership.

As to insider shareholding, with the exception of the percentage of *xiagang zhigong*, all the other independent variables are significantly correlated with the response variable. Insider shares were likely to be greater where the level of both debt and financial performance was relatively high,[64] auction was used as the method of restructuring, the level of approving authority was low,[65] the time of completing restructuring was more recent,[66] and the size of the enterprise was small. Curiously, those located in inland provinces were more likely to have higher insider shares than coastal provinces.[67] Also, private enterprises were more likely to have higher insider-held equity shares than limited liability stock companies, limited liability companies and those in the "other" category; but such difference is insignificant with reference to employee shareholding co-operatives.

It is important to note, however, that these results should be treated as preliminary clues rather than conclusive findings. As the low R^2 for both regressions indicates, a large part of the variance is not captured by the independent variables.

Financial and personnel liabilities. Financial and personnel liabilities are regarded by many Chinese economists and policy makers as both a major constraint on the performance of SOEs and a major challenge to their ownership restructuring.[68] Given the importance of these issues to the pace of restructuring and the ownership structure of restructured enterprises, a further look at the situations faced by restructured enterprises in this regard is warranted.

Findings presented in Table 10 show that restructuring provided little alleviation. Only 2.7 per cent of the enterprises in data set III considered "alleviation of debt and social welfare obligations" as the main achievement of reform.[69] After restructuring these liabilities remained a serious concern among significant numbers of enterprises. "Overly heavy debt" was considered by the largest number of enterprises as their main obstacle, whereas "workers' placement" and "lending policies" were where government assistance was most wanted by the largest number of enterprises. Only 17 per cent of the surplus personnel was fully placed after restructuring, whereas 76 per cent of the enterprises indicated that they had to carry on partially or fully the social welfare obligations that they had shouldered for their workforce before restructuring.

Governance. The main spirit of the "modern enterprise system" that the government aims to institute in the restructuring of SOEs is separation

64. A possible explanation is that those with relatively strong abilities to service their debt were willing or able to borrow more.

65. This may be an indication that lower-level authorities were more flexible with regard to insider shareholding.

66. What this suggests is that while private enterprise remained the least favoured form of restructuring the restrictions on private stake holding in other forms of restructured enterprises may have been gradually relaxed.

67. This finding points to the same direction as that on location reported in Table 4. Our speculation is that governments in inland provinces have poorer financial capacities than those in coastal provinces. They may have relatively greater urgency to tackle the problems faced by SOEs under their purview and thus tended to be more flexible with regard to insider shareholding.

68. See, for example, Wu Jinglian, *Modern Corporations and Enterprise Reform.*

69. 6.1% and 5.5% of the enterprises ranked this as their second and third major achievement respectively.

Table 10: **Selected Findings on Financial and Personnel Liabilities of Restructured Enterprises**

	All	*Limited liability stock companies*	*Limited liability companies*	*Employee share-holding companies*	*Private entities*	*Other*
(1) % of enterprises ranking "alleviation of debt and social obligations for employees" as main achievement of reform (n = 2,591)	2.7	2.4 (n = 294)	2.2 (n = 1,370)	1.3 (n = 463)	2.7 (n = 110)	6.8 (n = 339)
(2) Main difficulty after restructuring (%) (top 3 responses)						
overly heavy debt	33	28	32	37	25	36
capital shortage	23	24	23	21	30	22
sluggish sales	17	19	18	17	12	15
	(n = 2,600)	(n = 296)	(n = 1,374)	(n = 465)	(n = 110)	(n = 340)
(3) Assistance most wanted from government (%) (top 3 responses)						
workers' placement	22	23	21	21	25	28
lending policy adjustment	21	18	21	20	31	21
improvement in market institutions	20	24	22	20	12	16
	(n = 2,600)	(n = 297)	(n = 1,374)	(n = 463)	(n = 110)	(n = 341)
(5) Surplus personnel (*fuyu zhigong*) after restructuring (%)						
full placement	17	19	16	17	25	14
partial placement	50	45	53	43	43	57
no change	33	36	31	40	32	29
	(n = 2,577)	(n = 294)	(n = 1,364)	(n = 461)	(n = 104)	(n = 340)
(6) Social welfare functions after restructuring (%)						
fully rid of	24	26	23	25	37	19
partially rid of	38	38	39	34	35	40
not rid of	38	35	38	41	28	41
	(n = 2,530)	(n = 292)	(n = 1,339)	(n = 454)	(n = 100)	(n = 331)

Source:
1998 survey data set III.

of ownership from management. Table 11 shows that some organizational arrangements that embody this spirit, such as shareholder meetings, boards of directors and their pertinent roles in decision-making (such as enactment of company by-laws and selection of top managers), were widely adopted among limited liability stock companies, limited liability companies and employee shareholding co-operatives. In contrast, however, most private enterprise did not adopt these arrangements, and their CEOs appear to have been more dominant in decision-making.

On the other hand, among those that adopted the basic framework of a "modern enterprise system," signs of a half-way house abound. For example, the "one share, one vote" principle required by the Company Law was not adopted in many limited liability stock companies and limited liability companies; nor was the regulatorily required "one employee, one vote" principle adopted in the majority of employee shareholding co-operatives.[70] The majority of the CEOs were appointed or authorized by the government rather than selected solely by shareholders or employees (of employee shareholding co-operatives). The organizational forms taken by a little more than one-fifth of the restructured enterprises were lumped together under the "other" category, which had much greater resemblance to the old SOE system than the other four organizational forms, as can be seen from the main methods of their restructuring (cf. Table 5). Moreover, 41 per cent of the restructured enterprises retained their old enterprises as parallel or auxiliary organizational entities and profit centres; and over half of these entities were used purely as depositories for their financial and personnel liabilities, which ultimately remained the responsibilities of the owners of the restructured enterprises.

Enterprise leaders' perceptions of the effects of restructuring. Given that most of the enterprises in the sample had just completed their restructuring at the time of the survey (cf. Table 6) and the only accounting data reported were those for 1997 and the first quarter of 1998, there is not sufficient evidence for assessing how their profitability or productivity was affected. It is interesting, though, to see how the enterprise leaders perceived the changes brought about by restructuring.

Table 12 shows that their views were mixed. Some 54 per cent of the respondents in data set III regarded the effect of restructuring as "very positive" (7 per cent) or "somewhat positive" (47 per cent), though the remaining 46 per cent were less enthusiastic. Only 11 per cent of the respondents indicated a significant improvement in performance, and 3 per cent said that employees were more effectively motivated (not shown in table). The top two major achievements that the respondents attributed to the reform are "improved internal management mechanism" (34 per cent) and "clearer property rights" (23 per cent). This, however, is followed by "completion of a task required by the government" (20 per cent) as the third highest ranked achievement, suggesting that quite a

70. *RMRB*, 7 August 1997, 2 September 1998.

Table 11: **Selected Findings on Governance Structure after Restructuring**

	All	*Limited liability stock companies*	*Limited liability companies*	*Employee share-holding companies*	*Private entities*	*Other*
(1) % of enterprises that instituted shareholding meetings (n = 2,584)	62	87 (n = 297)	67 (n = 1,373)	90 (n = 462)	6 (n = 110)	7 (n = 342)
(2) % of enterprise that formed board of directors (n = 2,585)	75	92 (n = 297)	87 (n = 1,374)	89 (n = 462)	7 (n = 110)	16 (n = 342)
(3) % of enterprises where the board of directors was selected by						
shareholder meeting	70.2	75.9	63.0	90.7	100	58.8
government	8.8	4.1	11.8	1.0	0.0	26.5
CEO	0.9	0.0	0.8	0.0	0.0	5.9
enterprise nomination and government approval	12.4	11.0	15.6	4.1	0.0	8.8
other	7.7	9.0	8.9	4.1	0.0	0.0
	(n = 1,001)	(n = 145)	(n = 621)	(n = 193)	(n = 4)	(n = 34)
(4) % of enterprises where company by-laws were authorized by						
government	23.5	14.5	25.1	17.6	14.6	44.4
board of directors	17.8	18.5	22.0	9.4	8.3	9.5
CEO	5.9	2.9	2.7	2.1	62.5	29.0
shareholder meeting	50.4	62.5	48.7	70.3	6.3	4.1
other	2.4	1.5	1.4	0.7	8.3	13.0
	(n = 2,198)	(n = 275)	(n = 1,257)	(n = 438)	(n = 4)	(n = 169)

(5) % of enterprises where the CEO was						
enterprise-nominated and government-approved	15	15	14	9	14	29
government-appointed	17	12	17	4	11	44
board-nominated and government-approved	49	63	56	61	6	5
shareholder-appointed	9	7	8	21	3	2
employee-appointed	3	3	2	4	6	3
other	7	2	3	2	62	16
	(n = 2,572)	(n = 296)	(n = 1,374)	(n = 465)	(n = 110)	(n = 341)
(6) % of enterprises where the voting method used at shareholder meeting was						
one share one vote	52	64	54	40	43	54
one person one vote	13	12	13	15		17
the above combined	35	24	33	45	57	29
	(n = 1,632)	(n = 257)	(n = 913)	(n = 415)	(n = 7)	(n = 24)
(7) % of enterprises where, after restructuring, the old enterprise was						
totally integrated into the new one	59	53	64	64	52	40
partially retained as a separate entity	19	26	16	18	12	30
retained as depository for debt and social welfare functions	22	21	20	18	36	30
	(n = 2,558)	(n = 297)	(n = 1,371)	(n = 463)	(n = 110)	(n = 337)

Source:
1998 survey data set III.

Table 12: **Selected Findings on Managers' Assessment of the Effects of Restructuring**

	All	*Limited liability stock companies*	*Limited liability companies*	*Employee share-holding companies*	*Private entities*	*Other*
(1) Overall effect of restructuring (%)						
very positive	7	15	7	4	8	7
somewhat positive	47	52	50	39	42	45
so-so	29	20	29	32	31	32
yet to be seen	13	10	12	19	14	12
no positive effect	4	3	3	7	6	3
	(n = 2,601)	(n = 296)	(n = 1,365)	(n = 465)	(n = 110)	(n = 331)
(2) Main achievements of restructuring (%) (top 3 responses)						
improving internal management mechanism	34	34	37	33	26	28
clarifying property rights	23	25	23	29	33	12
completing a task	20	12	19	19	21	30
required by the government	(n = 2,550)	(n = 291)	(n = 1,363)	(n = 461)	(n = 110)	(n = 331)
(3) Degree of decision-making autonomy after restructuring (%)						
full	48	48	45	51	67	47
fair	44	46	46	40	26	45
poor	8	6	9	9	7	9
	(n = 2,566)	(n = 295)	(n = 1,369)	(n = 465)	(n = 110)	(n = 333)
(4) Loss bearer after restructuring (%)						
enterprise	84	78	83	88	95	87
government	1	2	1	1	1	1
both	14	20	16	11	5	12
	(n = 2,566)	(n = 295)	(n = 1,369)	(n = 465)	(n = 110)	(n = 333)
(5) Risk faced by management after restructuring (%)						
significantly increased	36	33	39	43	31	21
somewhat increased	45	44	44	43	41	54
no change	12	13	11	10	11	19
decreased	7	9	6	5	17	7
	(n = 2,560)	(n = 295)	(n = 1,369)	(n = 461)	(n = 110)	(n = 333)

Source:
1998 survey data set III.

number of enterprises were probably pushed through the reform by their supervising agencies for agendas that did not effectively address the problems that they faced. Such limitations notwithstanding, there are indications of substantive changes.

Some 48 per cent of the top managers surveyed claimed to have full autonomy in decision-making after restructuring, whereas 44 per cent indicated that they were by and large free in decision-making.[71] This may represent further improvement over the outcomes of the previous round of reform centred on the so-called factory director responsibility system during 1984–92. Moreover, the majority of the enterprises also indicated that they were the sole bearers of financial losses and faced increased risk after restructuring. This stands in contrast with the old system where the government was the main bearer of risks.

To explore what shaped the variations in enterprise leaders' perception of the outcome of restructuring, a logistic regression on their assessments of the overall effect of restructuring is performed. The dependent variable, based on the responses summarized under the first finding reported in Table 13, spans a five-level ordinal scale of opinion, ranging from "no positive effect" to "very positive effect." All the independent variables used in the OLS regressions reported in Table 9 are included, as well as three additional ones: the percentage of state-owned shares, whether "completion of a task required by the government" was regarded as the main achievement of restructuring (coded as "1" for "yes" and "0" for "no"), and whether "overly heavy debt" was considered as the most serious problem after restructuring (coded as "1" for "yes" and "0" for "no").

Results of the regression, reported in Table 13, indicate that, other things being equal, those with high percentages of *xiagang zhigong* in their workforce were most likely to have an unfavourable view about restructuring. Although debt–equity ratio and rate of return show no significant effect, the variable (the tenth in the table) that provides a direct indication of enterprises' actual abilities to service debt bears a negative and significant correlation with enterprise leaders' opinions. Also, those that had moved farther from direct state control of ownership, as indicated by the use of auction as the method of restructuring and a relatively low level of state-owned equity shares, tended to view what had taken place more favourably. Not surprisingly, those that were apparently pushed through restructuring by their supervising authorities were more negative about the reform. Large and medium enterprises tended to have more favourable views than small enterprises, though such difference was not significant with regard to very large enterprises. Other variables, such as location in coastal province, level of approving authority, time of restructuring and organizational form, show no significant effects.

71. In view of the persistence of constraints on personnel decisions (concerning both surplus employees and appointment of top managers) discussed above, this finding should be interpreted as referring to autonomy in other aspects of decision-making, especially operational issues.

Table 13: **Maximum Likelihood Estimates for Logistic Regression of Enterprise Leaders' Assessments of the Overall Effect of Restructuring**

Independent variables	*Parameter estimate*	*Standard error*	*Odds ratio*
Percentage of *xiagang zhigong*	− 1.44***	0.30	0.24
Debt–equity ratio	0.003	0.14	1.02
Ratio of pre-tax profit to assets	0.65	0.17	1.91
Location in coastal province	0.04	0.15	1.04
Use of auction in restructuring	1.31**	0.54	3.70
Level of approval for restructuring	0.07	0.07	1.08
Recency of restructuring	0.05	0.08	1.05
% of state-owned equity shares	− 0.45*	0.24	0.64
Fulfilling a task assigned by the government was considered as the greatest achievement of restructuring	− 0.27*	0.14	0.76
Heavy debt considered as the most serious problem after restructuring	− 0.30**	0.14	0.74
Dummy variables for enterprise size			
very large	0.99	0.65	2.72
large	0.43**	0.20	1.54
medium	0.34**	0.16	1.41
(with reference to "small")			
Dummy variables for organizational form			
limited liability company	− 0.14	0.67	0.87
limited liability stock company	− 0.41	0.65	0.67
employee shareholding co-operative	− 0.96	0.67	0.38
other	− 0.16	0.66	0.85
(with reference to private enterprise)			
Dummy variables for industrial sector (n = 36)	not shown	–	–
− 2 log-likelihood	2,415	–	–
χ^2	122***	–	–
Number of cases	1,013	–	–

Notes:
*p < 0.1; **p < 0.05; ***p < 0.01
Source:
1998 survey data set III.

Discussion

SOEs have been a cornerstone of China's state socialist economic system. Although reform in the state sector proceeded at an initially slower pace than those in other economic sectors during the 1980s, it has become the focal concern of CCP leaders since the early 1990s. In 1996, for the first time in the economic history of the PRC the total amount of financial losses exceeded that of profits among industrial SOEs (cf. Table 1).[72] In the following year the central leadership declared that by the end of 2000 most large and medium SOEs must be brought out of their financial plight through organizational restructuring. The urgency embodied in this timetable highlights the importance attached by the current leadership to the latest SOE reform. It directly affects the ability of the government to contain its growing financial liabilities, including those associated with the accommodation and placement of surplus labour. It also bears directly on the official claim that China's economic transformation does not deviate from the "socialist" direction. Moreover, it holds a key to the new institutional framework that the government seeks to establish for effective control and regulation of market-oriented economic activities. In light of the findings presented above and taking account of related developments since the time of the survey, we can discern some clues to understanding the implications of the latest SOE reform for these imperatives.

Ownership restructuring and SOEs' financial performance. As can be seen from Table 1, after a big drop in 1996 the gross profits of industrial SOEs steadily climbed back. They reached an all-time high of 99.8 billion *yuan* in 1999, though the offsetting effect from the losses incurred by loss-making enterprises remained serious. According to official reports, in 1998 the gross profits from the 24,000 SOEs (including those outside the industrial sector) that had undertaken ownership restructuring and retained a controlling state share in their equity reached 84.43 billion *yuan*, a 17.7 per cent increase over the amount in the preceding year.[73] In 1999 the number of industrial sectors (totalling 40) where large and medium SOEs incurred a net loss was reduced from 22 to 18.[74] From 1997 to 1999 the total number of large and medium SOEs in the red was reduced from 6,599 to 3,499.[75]

Are these changes mainly the result of the ongoing ownership reform? As noted above, our data sets do not contain information about enterprise finance before and after reform. We are therefore not in a position to gauge the impact of reform on enterprise performance directly. But the related information reported in the survey reveals some possible links between the reform and enterprise performance. Managerial and employee shareholding, for example, was widely adopted among restructured enterprises (cf. Table 8), hence increasing the number of parties whose interests were closely tied to the performance of the enterprises. Also, streamlining of internal management, clarification of property

72. It should be noted that what this indicates is that the total financial losses incurred by loss-making SOEs exceeded half of the gross profits made by profitable SOEs, as the total profits reported in official statistical yearbooks are the profit figures after the deduction of total losses. Still, this fact is an alarming sign of the growing offsetting effect from loss-making enterprises.

73. *RMRB*, 7 August 1999.

74. *RMRB*, 17 March 2000, 7 December 1999.

75. *RMRB*, 26 January 2000.

rights, expansion of decision-making autonomy and increase of risk bearing by the enterprises were identified by a significant number of the respondents as important changes brought about by organizational restructuring (cf. Table 12). All these factors are potentially conducive to productive managerial behaviour and hence the enhancement of enterprise performance. Although not many of the enterprise leaders regarded improvement in performance as the immediately most important achievement of restructuring, over time the effect in this regard may have become more pronounced.

This said, it is also important to note that there are three concurrent developments that have greatly reduced the interest owed by SOEs to state banks, which, as a cost item in accounting, otherwise could have erased a large part or even all of the net profit reported by SOEs in 1998–99. From 1996 to 1998 state banks wrote off a total of 120 billion *yuan* of non-performing loans to SOEs.[76] During 1996–99 state banks lowered interest rate seven times, resulting in a reduction of SOEs' obligations in interest payment by 250 billion *yuan*.[77] In 1999, a total of 350 billion *yuan* of non-performing loans was transferred, through a debt-to-equity swap scheme, from state banks to the four newly formed (in 1999) asset management companies under the central government.[78]

All the financial liabilities resulting from these arrangements were channelled to the fiscal system. In 1998, the government issued 270 billion *yuan* of treasury bonds to raise funds to replenish the equity capital of state banks.[79] The Ministry of Finance provided the seed capital for the asset management companies.[80] From 1998 to 1999, the total budget deficit of the government increased from 92 billion to 176 billion *yuan*, whereas the amount of current-year public debt rose from 331 billion to 402 billion *yuan*.[81] A large part of these increases apparently represents a postponed cost for SOE restructuring. Clearly, the reshuffling of financial liabilities has been greatly motivated by the political agenda of facilitating the achievement of what the central leaders promised in 1997: to get most SOEs (especially large and medium ones) out of financial plight by the end of 2000. It remains to be seen whether the financial relief, coupled with ownership restructuring, can provide a sustainable boost to the improvement of SOEs' performance. Given the high political and economic stakes involved, failure in this undertaking could lead to a serious crisis for the current leadership.

Placement of surplus personnel outside the state sector. As noted above, a major challenge faced by the government in SOE reform is how to reduce personnel slack through downsizing. According to one official

76. *RMRB*, 2 April 1999.
77. *RMRB*, 20 September 1999, 27 October 1999.
78. *RMRB*, 21 January 2000.
79. *RMRB*, 22 April 1999.
80. *RMRB*, 21 April 1999.
81. *RMRB*, 7 March 2000.

report, by the end of 1997 SOEs had 70 million employees, of whom 20 million were surplus personnel (*fuyu renyuan*); in 1998 the total size of the SOE workforce on active duty (*zaigang zhigong*) was drastically reduced to 52 million.[82] By the autumn of 1999 over 10 million of those removed from active duty – *xiagang zhigong* – had been channelled out of their former employers, though at the end of the year there remained nearly 7 million *xiagang zhigong* to be placed.[83]

The survey findings indicate that the state sector is unlikely to be the main source of re-employment for SOE workers removed from active duty. This raises the question of where most of those channelled out of their former enterprises found jobs. According to the Minister of Labour and Social Security, the private sector has become an important provider of such employment.[84] From 1990 to 1998 the share of the public sector (state-owned units and urban and rural collectives) in total non-farm employment declined from 71 to 48 per cent.[85] This trend was in part the result of a gradual relaxation of government restrictions on private economic activities. In 1988, the government removed a decade-long rule that limited the size of private enterprises to no more than seven employees, and in 1992, the CCP gave a full official recognition of the "important role" played by the private sector in China's economic development.[86] The status of private enterprises received a further boost in 1999 when a constitutional amendment redefined the private sector from being merely "supplementary" in nature to an "important integral part" of the economy.

It appears that these policy changes were not only related to the inability of SOEs to add non-farm jobs but to the growing need to accommodate the surplus personnel squeezed out of the state sector.[87] The latest SOE reform thus has had important implications for the shifting balances between the public and private sectors in the Chinese economy.

Persistence of state ownership among restructured enterprises. In view of the declining role of SOEs (and the public sector in general) in the provision of employment, the leadership has redefined the notion of dominant public ownership in China's "socialist market economy." In 1995, CCP General Secretary Jiang Zemin claimed that such dominance

82. *RMRB*, 21 September 1999.
83. *RMRB*, 8 March 2000.
84. *RMRB*, 9 November 1999.
85. *Statistical Yearbook 1999*, pp. 133, 136, 423; *Zhongguo xiangzhen qiye nianjian 1990*, pp. 138–39, *1999*, p. 111.
86. For detailed discussions of these changes, see Susan Young, *Private Business and Economic Reform in China* (Armonk, NY: M.E. Sharpe, 1995), Zhang Xuwu *et al.*, *Zhongguo siying jinji nianjian* (*Yearbook of China's Private Sector Economy*) (Beijing: Zhongguo gongshanlian chuganshe, 1996).
87. In recent years there has been a large body of official media reports on the importance of the private sector in the provision of employment to workers squeezed out of the state sector. For a sample, see *RMRB*, 19 October 1997, 4 March 1998, 11 November 1998, 15 August 1999, 8 December 1999, 7 March 2000.

should concentrate on the control by public entities of economic assets and on the leading role played by public enterprises in key economic sectors and in the orientation of economic development.[88] According to this definition, restructured SOEs where the state has a controlling interest are still deemed as public enterprises, where 512 large-scale enterprises and 120 enterprise groups have been identified as the core.[89] In 1999 SOEs of all kinds (including those that had or had not undertaken ownership restructuring and those with a controlling state interest) had 13.5 trillion *yuan* of assets, accounting for 53 per cent of the total assets outside the banking sector.[90]

One of our main findings is that state ownership remained predominant in a significant number of restructured enterprises, especially those that were large in size and organized as limited liability companies and limited liability stock companies. This apparently is consistent with the official policy. But the analysis also reveals two other factors that were related to the persistence of dominant state ownership in the restructured enterprises. First, the regression results reported in Table 9 indicate that the percentage of *xiagang zhigong* had a significant positive correlation with the degree of state ownership. It is possible that enterprises with relatively heavy personnel liabilities had difficulty attracting alternative owners to share the responsibility, and therefore had to remain as predominantly state-owned entities. An implication of this is that if solutions are found to reduce the personnel liabilities in these enterprises, there may be a corresponding dilution of state ownership in them.

Secondly, the findings show that quite a number of SOEs were turned into the ambiguous "other" category (Table 6), that signs of halfway organizational change were widely visible among restructured enterprises (Table 11), and that at least one-fifth of the enterprises were pushed through restructuring by their supervising authorities (Table 12).[91] A further examination of the data show that state ownership was more dominant among enterprises with these features.[92] A possible contributing factor to this is vested bureaucratic interests: the supervising authorities

88. *RMRB*, 7 March 2000.
89. *RMRB*, 13 October 1999.
90. *RMRB*, 28 October 1999.
91. It should be noted that these enterprises did not concentrate in the "other" category and therefore included an additional number of those where the rules were likely twisted during restructuring. 7% of them were turned into limited liability stock companies, 51% limited liability stock companies, 17% employee shareholding co-operatives, 5% private enterprises, and 20% entities in the "other" category.
92. Table 7 shows that those in the "other" category had the highest percentage of majority state ownership among all the five categories. A t-test of the data on pertinent questions reported in Table 12 shows that, of the enterprises turned into limited liability stock companies, limited liability companies and employee shareholding companies, those that had their CEOs directly appointed by the government and deviated from the regulatorily required voting principles ("one share one vote" for the first two categories and "one person one vote" for the third category) had significantly higher state ownership than their counterparts. A further analysis of the data reveals 85% of those that regarded "completing a task assigned by the government" as the top achievement of restructuring had over 50% of their equity shares held by the state.

of these enterprises may have sought to maintain their influence throughout restructuring by controlling a large part of the equity shares that they held in the name of the state while twisting the rules of reform.

What these findings suggest is that, although the recent restructuring of SOEs has heightened the need for alternative sources of employment and thus broadened the space for the growth of the private sector, the process of restructuring per se is not a linear transformation from public to private ownership.[93] Moreover, besides the centrally defined imperative to curb the erosion of public ownership, there may be more diverse forces that have converged to contain, at least in the short term, the dilution of state-owned stakes in restructured enterprises. As noted above, these forces, like the ideological agenda of maintaining the dominance of public ownership, are rooted in the institutional legacies that SOEs have carried over from the pre-reform era.

Relationship between SOEs and supervising authorities. The three-year timetable laid out by the central leadership in late 1997 called for an intensification of the effort to deploy the "modern enterprise system" in the state sector. By the end of 1998 some 24,000 or 10 per cent of SOEs had been turned into limited liability companies, limited liability stock companies and employee shareholding co-operatives.[94] In the first half of 1999 nearly 50 per cent of the large and medium SOEs in Jiangsu province and 80 per cent of the SOEs in Shanghai reportedly completed organizational restructuring, whereas at the end of the year 38 per cent of the SOEs in Shandong province were claimed to have been restructured.[95] A report in the summer of 2000 claimed a 60 per cent completion rate of restructuring among the large and medium SOEs in Liaoning province.[96]

While the seemingly accelerating pace of reform is notable, it is perhaps more important to look at what has been brought about by ownership restructuring. Our analysis shows that the initial results were mixed. There were some organizational arrangements cast in the spirit of separating enterprises from the government; yet many basic features necessary to make them work were not in place. However, one should not take a static view of the imperfections in the early stage of organizational restructuring. As Rawski points out, China's reform is a process rather than an event.[97] The relevant question here is what shapes the evolution of the prototypical governance structure that has been ushered in by initial reform. An important issue in this regard is how the relationship between enterprises and their supervising authorities has been redefined.

93. For a view that emphasizes the role of SOE restructuring in the growth of private ownership, see Shu Y. Ma, "The Chinese route to privatization: the evolution of the shareholding system option," *Asian Survey*, Vol. 38 (1998), pp. 379–397.

94. *RMRB*, 7 August 1999.

95. *RMRB*, 27 July 1999, 13 September 1999, 29 February 2000.

96. Xinhua General News Service, 17 August 2000.

97. Thomas Rawski, "Reforming China's economy: what have we learned?" *The China Journal*, Vol. 41 (1999), pp. 139–156.

As noted above, the original design of the reform is to turn SOEs from sole proprietorships under the control of their supervising authorities to shareholding enterprises where the equity capital of the state would be held and looked after by independent state asset management entities. The central agency designated to supervise and co-ordinate these entities was the State Asset Administration (SAA), which was formed in 1988 and given vice-ministerial status. This arrangement, however, posed a direct threat to the interests of SOEs' supervising authorities and thus faced stiff resistance. Now it seems clear that the vested interests have prevailed. In 1998 (around the time when the survey analysed above was completed), the SAA was turned into a department under the Ministry of Finance and its previous central role in overseeing ownership restructuring among SOEs and managing the assets of restructured enterprises was discontinued. A new policy was subsequently spelled out in the Resolution of Several Important Issues in the Reform and Development of SOEs, adopted by the CCP in September 1999.[98] It leaves the role of overseeing the use of state assets in restructured SOEs to the government agencies and state-owned entities that are the former supervising authorities of, or have made new investment in, the enterprises concerned. The policy may have softened bureaucratic resistance to the reform, but it also adds to the difficulty in co-ordination and monitoring, as recognized by CCP leaders.[99]

It remains to be seen whether this readjustment will lead to a resurgence of traditional forms of bureaucratic meddling in the management of restructured SOEs. The more serious challenge in the resultant environment of diffused control, though, is how to motivate officials and managers to refrain from opportunism and act like true owners. The government seems to be counting on mutual monitoring under diversified ownership structure and a growing body of new laws and regulations to contain the problems in the new governance structure.[100] We have yet to see any clear evidence on the effects of these mechanisms. To what extent they achieve the intended results and why will no doubt be an important topic for future research.

98. *RMRB*, 28 October 1999.
99. *Ibid*.
100. *RMRB*, 28 September 1999.