

## SASAC Rising

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During April and May 2005, new policies were put in place to address some of the most contentious, longest-running economic issues in China. Although the initial policy moves were modest, the way they played out illuminates the process of policymaking in China today, in particular the large and growing role of the State Asset Supervision and Administration Commission (SASAC). On balance, these changes have brought the SASAC to a substantially more important and powerful position in the Chinese economy. The first policy was a clarification of the conditions under which management buyouts (MBOs) would be allowed in state-owned enterprises (SOEs). The second policy began the process by which state-owned noncirculating shares of companies listed on the stock exchanges will be converted to circulating shares. The SASAC continues to be plagued by an inconsistent—and occasionally contradictory—mission, but it has recently succeeded in rearticulating that mission and in the process enhancing its position and authority. Important indications of this renewed prominence include the SASAC's steadily increasing influence over the budgeting process of state-owned enterprises and the commission's new restructuring plans. However, a stronger SASAC also foreshadows a stronger role for the bureaucracy in Chinese economic development, which may not be the best outcome for an increasingly sophisticated market economy.

### Management Buyouts (MBOs) and the SASAC

Management buyouts (MBOs) have become a hot-button issue in China over the last two years. MBOs imply that existing managers gain control of a formerly state-owned enterprise. They have surged in popularity since 2000, and have become an important mechanism for the privatization of state-run and collectively run firms (including township and village enterprises). MBOs have also elicited concern and public opposition, because they often take place under less-than-transparent conditions, and there is widespread suspicion that such “insider privatization” represents a disguised form of the stripping of public assets. The issue was given much greater visibility during 2004 by the blistering critique of unfair MBOs that was unleashed by the celebrity economist Larry Lang.<sup>1</sup> The SASAC's policies on MBOs have evolved over the two years since the commission's establishment in April 2003. Although the SASAC has, on occasion, responded directly and publicly to Lang's criticisms, the SASAC's evolving policy on MBOs should be seen as a natural outgrowth of its mission and worldview, rather than as a knee-jerk reaction to criticism.

On April 14, 2005, the SASAC issued a comprehensive regulation on management buyouts at state-owned enterprises. The regulation temporarily prohibits MBOs at large state enterprises. It also blocked several loopholes that had allowed MBOs to go forward in cases where they had previously been prohibited, and it clarified a set of conditions that should be fulfilled for MBOs to go forward in medium-sized and small firms.<sup>2</sup> Because of these restrictive elements, the regulation was widely misreported as having banned MBOs in China's state firms.<sup>3</sup> In fact, the regulation merely systematized and brought together rules and rulings that were already in place. The SASAC's recent policy on MBOs is best seen as the latest (and most detailed) in a series of incremental course corrections to a relatively consistent policy. The difficulties of crafting a specific policy reflect the tensions inherent in the SASAC's role and function. Since the commission was created in April 2003, its mission has been to represent the interests of the state as shareholder. This brief has always included an instruction to oversee and introduce greater transparency into the conversion of state capital. In other words—although the word “privatization” is never used—the SASAC has sought to make sure that the state receives a “fair” price for its firms when they are privatized. In the pursuit of this objective, the SASAC has tried numerous measures: insisting that enterprise transactions take place at provincial property rights markets, limiting the types and conditions of transactions, and setting principles for the calculation of minimum prices. In fall 2003, the SASAC and the Ministry of Finance declared a temporary suspension of MBOs, but this action was justified by the SASAC's need to get an effective regulatory apparatus in place. Overall, the essence of the SASAC's policy all along has been to provide a modicum of transparency and oversight to privatization as it occurs, but without setting off a fully transparent and comprehensive privatization process.

At the end of 2003, the SASAC began to systematically lay out laws and regulations. The most important were the programmatic November 2003 document “Views on Regularizing the Work of Transforming (*gaizhi*) Enterprises” and the more detailed “Temporary Methods for Managing the Transfer of Enterprise State Assets” of December 31, 2003.<sup>4</sup> It is this latter document that is sometimes seen as having given the SASAC's tacit approval of MBOs. Certainly, it gave full legitimation to the concept of MBOs, as long as they were carried out in a fair and transparent fashion. Moreover, the regulation touched off a flurry of MBO activity during the first half of 2004. By fall 2004, the SASAC was feeling the heat from a string of abuses and stood at the center of a lively public debate. The SASAC sent investigation teams to the provinces, uncovered further abuses, and clearly signaled a go-slow attitude toward MBOs. In this context, the April 2005 promulgation of regulations—originally drafted in December 2004—represents the reassumption of the middle ground, rather than a new prohibition.<sup>5</sup> If anything, the new regulations are likely to facilitate the ongoing ownership conversion within Chinese industry.

The regulations do place new restrictions on large enterprises. They extend existing prohibitions on MBOs to firm subsidiaries, prohibit the use of trusts to disguise transfers of management control, and define “managerial status” more precisely. The objective is to ban “camouflaged MBOs.”<sup>6</sup> The regulations also attempt to establish a

general principle: The process of privatization—including appraising assets, setting minimum sale prices, and employing middlemen—should take place separate from, and without the participation of, the existing managers of the privatizing firm. But at the same time, the regulations allow plenty of flexibility for local jurisdictions to proceed with MBOs, provided they have local equivalents of the SASAC established and operational. The regulations formalize the increasingly profound separation between large, centrally controlled firms and smaller, locally controlled firms.

## Floating State Shares

On Saturday, April 30, 2005—on the eve of the weeklong May Day holiday, during which stock markets were closed—the China Securities Regulatory Commission (CSRC) announced that some companies were being given permission to begin selling their state-owned, noncirculating shares, and thereby to begin converting to a system in which all their shares could circulate legally. The announcement was carefully timed, and the reason for caution quite obvious: the last time the CSRC implemented a sell-off of state shares, in 2001, the move triggered a massive market decline.<sup>7</sup> Moreover, in the almost four-year span since that ill-fated effort, almost every attempt to partially revive some aspect of state-share sales has been followed by a sharp market decline. Current shareholders are extremely sensitive to the downward price pressure that *might* be exerted by an increase in the supply of shares.

The 2005 program differs significantly from the aborted 2001 effort. The prior initiative was designed to be uniformly applied to all firms newly selling shares on the exchange, requiring them to sell 10 percent of their shares to the public for the purpose of funding social security. In the current program, restructuring will occur gradually, and on an individual, company-by-company basis. CSRC chairman Shang Fulin told reporters, “The CSRC or any other government authority is not in the position to produce a solution or impose a plan.... We believe that the overhang of nontradable shares should be settled between the two types of shareholders [circulating and noncirculating] by consultation and negotiation.”<sup>8</sup>

In practice, each company must draw up its own program to convert its noncirculating shares to a circulating basis. Regulators must approve each plan, and government bureaucracies have taken an active role in the development of initial plans. Nevertheless, essentially controlling shareholders in each company have been given the responsibility to draw up a plan, which is to be approved by the company’s board of directors. Each firm must find a way of compensating holders of its circulating shares in order to get their agreement. The most common form of compensation is to give existing holders of circulating shares new bonus shares in some fixed proportion to their quantity of existing shares. In order for a plan to be adopted, it must be approved by two-thirds of the public shareholders (i.e., holders of circulating shares).<sup>9</sup>

The initial steps were tiny. As the May 1 holiday week was drawing to a close, it was announced that four firms had initially been chosen for restructuring. None were

central government-controlled: two were majority local government-owned, and two were majority private-owned. All are profitable, are untainted by significant scandals, and have relatively straightforward ownership structures. Shanghai Zijiang Group, controlled by a private entrepreneur, makes plastic bottles for soft drinks from the likes of Coke and Pepsi. Zijiang will give existing shareholders 3 nontraded state shares for every 10 tradable shares held. Sany Heavy Equipment, controlled by private interests, will give 3 nontraded state shares and 8 yuan for every 10 tradable shares held. Qinghua Tongfang is an information technology company, nominally a state-owned enterprise but with the state share controlled by Qinghua University. It will give existing shareholders 10 bonus shares from its reserve for every 10 tradable shares held. The fourth company, Hebei Jinniu Coal, is the only traditional state-owned company on the list. Its profitability and share price have surged recently along with the spike in energy prices. Hebei Jinniu will give existing shareholders 2.5 nontraded shares for every 10 tradable shares held.

Shares in the designated firms rose in response to the favorable deal, but the overall market reaction was nevertheless swift—and negative. The Shanghai composite continued its downward spiral, closing on Monday, May 23, at 1,071, its lowest close since May 18, 1999. Regulators took a number of steps to reassure investors, stressing that the pace of reform would be moderate and controlled; that there would be no dumping of massive amounts of large state enterprise shares on the market; and that each individual plan would only allow sales of formerly noncirculating shares on the market, within limits and gradually over three or more years. But at the same time, regulators tried to shore up the credibility of their commitment to this specific plan. “There is no return for the reform of solving the split share structure of listed companies.... It will not be halted,” said Shang Fulin, chairman of the CSRC.<sup>10</sup> It has been reported that another 8–10 firms would present their programs to move to full circulation in mid-June 2005.<sup>11</sup>

## The Role of the SASAC in State Share Circulation

The SASAC’s mission is to represent the government in its role as owner of state-owned enterprises, as the ownership interest behind the nontradable state shares. Thus, to simplify, it is fair to say that the SASAC represents the interests of the nontradable state shares that are being sold off, while the CSRC as regulator represents the interests of the minority shareholders, who fear that the value of their holdings will be harmed by the dumping of state shares. The solution to this clash of interests has been to force those two parties to agree, on a case-by-case basis and through their agents, on a mutually beneficial plan to sell down state shares. The side representing state shareholders has to pay off the minority shareholders sufficiently to convince a two-thirds majority of public shareholders to back the sell-off.

The central government SASAC controls 168 companies listed on the Chinese exchanges in Shanghai and Shenzhen. But these are most of the largest companies, and they account for 33.8 percent of domestic stock market value and 18 percent of the value of the Hong Kong stock market.<sup>12</sup> Therefore, the SASAC’s acquiescence in a specific

reform program is essential. Moreover, it is generally believed that the inability of the SASAC and the CSRC to come to an agreement was the primary cause of the lack of progress on this issue for almost two years, during 2003 and 2004. The agreement on a common program is therefore significant. The balancing act, or perhaps tug-of-war, between the SASAC and the CSRC is evident not only in the overall policy, but also—given the decision to proceed on an incremental, company-by-company basis—in the selection and approval of individual companies. The pilot program was originally drafted by the CSRC, which selected an initial batch of enterprises. The SASAC then audited and approved those firms, and finally the individual exchanges investigated and signed off. In fact, nine firms were originally chosen as possible pioneers. The SASAC vetoed one plan (for Guangzhou Holdings) because it would have awarded circulating shareholders with 5 bonus shares for each 10 shares, compensation the SASAC deemed too generous. Other provisional enterprise plans were rejected because they were not generous enough to holders of circulating shares, or because of complications relating to the identity of existing shareholders.<sup>13</sup>

The fact that a policy finally emerged represents a provisional resolution of differences between the SASAC and the CSRC. The SASAC did not formally comment on the plan until May 11, 2005, when SASAC head Li Rongrong declared his support in a major speech in Chongqing. Li said that the CSRC would take the lead on this important reform policy and that the SASAC had coordinated its actions with those of the CSRC—and would continue to do so. The key, Li said, was that the SASAC had agreed to consult with, and protect the interests of, small and minority shareholders. At the same time, Li, speaking as the representative of the owner of the biggest block of noncirculating shares, declared that the SASAC would not dump its shares. The SASAC would maintain a large ownership position, because China would still need state-owned companies in a “guiding” (*zhudao*) position, even as the market economy developed.<sup>14</sup> This stance is consistent with the SASAC’s long-held position. It is also convenient, because if the SASAC is going to hold on to the bulk of its shares, the increased supply of shares will be quantitatively and qualitatively less significant, and the impact on stock market valuations correspondingly less profound.

Both the CSRC and the SASAC represent complex interests. The CSRC has an interest in guiding the Chinese stock market to a sustained revival after a six-year slump. It also has an interest in protecting its credibility as a regulator and in defending the interests of small-scale and minority shareholders. But at the same time, the CSRC has a long-standing and not entirely benign relationship with the securities companies that are powerful interests in the stock market. These securities companies, many of which are currently in desperate financial straits, have close personal and professional ties with CSRC personnel, who would like very much to be able to help them out. For its part, the SASAC has a primary mission of protecting and increasing the value of state property. But it also, to a certain extent, reflects the interests of a stratum of state bureaucrats and managers. These bureaucrats seek to consolidate and maintain their own power and sense of mission, of course. But they are also increasingly attracted to the prospect of becoming professional managers (and perhaps owners) of large, powerful, and competitive companies. These diverse interests do not necessarily stand in contradiction,

but they certainly demand a complex—and sometimes tense—process of continuous renegotiation. How have the SASAC and the CSRC managed to bring their interests into at least temporary alignment?

## The SASAC's Budgetary Authority

Although the SASAC was set up to exercise the functions of the state as owner of firms, it has in fact never received the profit that its SOEs generate, nor has it had direct control over enterprise budgets. Those powers have, until recently, stayed with the Ministry of Finance. However, during 2005 there has been substantial movement toward giving the SASAC real authority over enterprise budgets. An agreement in principle has been reached that the SASAC will compile a “state capital management budget” (*guoyou ziben jingying yusuan*), which will consolidate investment funds for the 176 firms under the central SASAC's direct control. Although all the details have yet to be hammered out, the general policy has been determined, and the SASAC has already received a significant voice in the budgeting process.<sup>15</sup> For example, the SASAC set up a Management Budget Bureau and an Audit Bureau in January 2005.<sup>16</sup> Moreover, a number of provinces have already developed systems in which the local SASAC has operational control over budgets and/or profit remission. These provinces include Hebei, Jilin, and Shanghai, as well as a few cities, such as Shenzhen.<sup>17</sup>

As the SASAC develops greater control over budgets, it becomes easier for the commission to make deals over the new policy to float state shares. With control over budgets and profits, the owner of the formerly noncirculating state shares has a concrete interest in the revenues to be made from selling down state shares, and not just a theoretical obligation to protect the value of state capital. Indeed, it is not accidental that the only traditional SOE among the first four enterprises allowed to sell down state shares was subordinate to the local Hebei SASAC, which was one of the few local SASACs to already have full control over the subordinate flows of its revenues.<sup>18</sup> But as the central SASAC gradually develops a parallel authority, it has begun to feel that “conditions are ripe” for a movement toward cutting back noncirculating shares. Indeed, it is expected that one or two central government firms will be among the second batch of firms allowed to sell down state shares.<sup>19</sup> The SASAC's increasing influence over budgets complicates policies in another way: the SASAC has begun to advocate new policies with respect to the National Social Security Fund, which was initially intended to be the beneficiary of the state share sell-down. The SASAC now argues that shares should not be given directly to the National Social Security Fund. Instead, the SASAC feels it should use its budget to allocate a certain sum of money to the fund, retaining a higher degree of operational control for itself.<sup>20</sup>

In a broader sense, control over budgets can be seen as part of the long-range vision for the SASAC articulated by its head, Li Rongrong. Li has spoken of developing a complete framework for state asset management within a five-year period after the establishment of the SASAC in 2003. After having taken significant steps toward budgetary authority in 2005, the SASAC is now more or less on schedule to achieve that

long-range objective. This development also gives the SASAC more resources—and more confidence—to carry out an aggressive agenda.

## The SASAC's Restructuring Agenda

Increasingly, the SASAC formulates its agenda in terms that a Wall Street investment bank would understand. The SASAC sees its mission as restructuring the large firms under its control, hiving off and discarding noncore businesses, and building strong, competitive firms around a few core businesses. These core businesses should be leaders in their sectors, or they should drop out of the business. SASAC head Li Rongrong repeats the mantra of Jack Welch, the legendary head of General Electric, that each business should be No. 1, 2, or 3 in its market—or else it should be discarded. As these firms are restructured, they are to be brought to the stock market, and a share of their equity is to be sold. This process is thus consistent with a kind of “partial privatization,” but it does not yet explicitly envisage an end to, or even much of a dilution of, direct government control.

This vision represents a significant evolution from the 1990s efforts of Chinese planners. During the 1990s, planners tried to merge state firms to create big “national champions.” Moreover, state firms were pushed onto the stock market as a quick way to pump money from the public into state firm investment. However, those efforts were accompanied by relatively little restructuring. They sought quick fixes to China's gigantic state-enterprise problems, and they achieved little success. The SASAC today envisions something much more fundamental. The quality of managers is also significantly higher. Today's effort is more similar to the kind of efforts carried out in Western Europe in the 1980s and 1990s. State-run firms were restructured, often with drastic cuts in costs, and then listed on stock markets. One important difference is that the SASAC has not committed itself to a final objective of full privatization.

The SASAC clearly sees this process accelerating. In April 2005, the SASAC long-range planning office met in Shanghai to hammer out the details on a series of 21 sectoral restructuring programs. The objective was to have central government firms be more concentrated in a few sectors that presented a stronger rationale for public involvement. Li Rongrong again chanted the Jack Welch mantra, and then explained, “If you [central enterprises] can't influence others, then others will influence you, and you should just get out.”<sup>21</sup> Li Rongrong has already presided over a reduction in central enterprises from 196 to 176 by the end of March 2005, mainly through mergers and restructuring. He envisages a further shrinkage to 80–100 firms. When Li was asked whether there was already a name-by-name list of the firms designated to be survivors, he replied, “Yes, there is, but I won't reveal it. If I revealed it, it would be chaos.”<sup>22</sup>

Relatedly, the SASAC has presented a plan for a final round of policy-related bankruptcies of large enterprises. Over the next four years (through 2008), 2,167 SOEs, with 3.66 million total employees, will be shut down. The government will foot the bill for debts and closure costs, but this is intended to be the last round of government-funded

enterprise closures. (By comparison, in the decade up through 2004, 3,484 SOEs were closed down as part of government-funded programs, with 6.67 million employees affected.) All future closures should be market-driven bankruptcies and should be conducted according to the new bankruptcy laws.<sup>23</sup> The SASAC's ability to carry through this expensive program depends on its confidence about budgetary resources.

## Functions and Position

Clearly, the SASAC is rising in authority, self-confidence, and resources. Yet there is also significant uncertainty and division of opinion caused by the SASAC's ambiguous mandate. To compress a long and complex discussion into a few sentences, it can be said that the SASAC combines both ownership and regulatory functions. While it struggles to assume ownership authority, it simultaneously carries out regulatory and other miscellaneous roles bequeathed to it by the government bureaucracy. This state of affairs gives the SASAC a powerful and intrusive role that sometimes is resented and often provokes criticism. These views are often encapsulated in the adage that the SASAC has become "both mother-in-law and boss." In fact, Li Rongrong, speaking in Chongqing on May 11, 2005, declared that the SASAC was fulfilling its legal obligations and had certainly *not* become "both mother-in-law and boss." According to Li, the SASAC's job was to protect state assets from erosion and to increase the value of state assets by deepening reform and restructuring in the economy. The SASAC would fulfill its legal obligations, but never exceed its legal rights.<sup>24</sup>

The problem with this statement is that it is not at all clear what the SASAC's legal obligations and rights are. The SASAC itself is a "special nongovernmental organization under the State Council," which always has its documents countersigned by the Ministry of Finance to ensure that they are legally binding. The SASAC's legal position is unclear because China has never been able to draft a law governing control of state assets. A drafting group was established in 1993, but after working through a score of drafts, it found its final version junked. The group had attempted to write a broad constitutional charter for the treatment of state assets, but apparently had stumbled into far too many specific problems and conflicts of interest. An entirely new drafting group was assembled by the National People's Congress in 2003, and the formulation of the missing law was incorporated into the 2003–8 legislative program.<sup>25</sup> Thus, Li Rongrong's long-range program for a clarified framework for the SASAC can also be seen as part of a legislative program to be completed by 2008.

In the meantime, the SASAC is to some extent a self-created entity. It absorbs jobs from the top of the political hierarchy. The SASAC "never runs out of things to do, never runs short of people telling it what to do." It takes on the "dispatcher" function of the old State Economics and Trade Commission (SETC), which in some views it has increasingly come to resemble. That is, it rushes around, putting out fires and resolving whatever issues surge to the top of the political agenda. And after all, its personnel comes mainly from those former state and party organizations; they are simply performing the kind of functions they know how to perform.<sup>26</sup> Some critics urge that the

ownership and regulatory functions of the SASAC be separated into two different organizations, but this criticism is far from having been accepted by an increasingly powerful and self-confident SASAC.

## Conclusion

The SASAC's position, initially somewhat precarious, has become increasingly strong in the past year. By one account,<sup>27</sup> two external factors have reshaped the environment in which the SASAC operates. First, the debate about MBOs, sparked by Larry Lang, has reflected and amplified significant public concern about corruption and insider privatization. This level of concern has made the SASAC's role more public and more contested, but also more important and more central. Moreover, the debate has tended to give increased legitimacy to the SASAC's fundamental job of protecting the value of state assets. Second, the booming Chinese economy has produced unprecedented profits for large state enterprises, particularly those in semiprotected monopoly sectors. Profit increased more than 30 percent at the 176 enterprises run by the central SASAC in the first quarter of 2005.<sup>28</sup> The total value of the SASAC-run companies increased from around 7 trillion yuan at the SASAC's creation in 2003 to over 9 trillion yuan in early 2005. Under these circumstances, the SASAC can certainly argue that it has done its job of increasing the value of state assets.

There are many contradictions and stumbling blocks in the path of China's state ownership reform. Indeed, one can argue that recent successes largely reflect the spillover from a frothy economic expansion, and that China's approach to state ownership remains severely troubled, its problems merely papered over. This paper has not analyzed the deeper problems, but instead has merely pointed out the short-run successes that have been enjoyed by the SASAC. The SASAC has, in the last year, reinvigorated its mission and given itself a new agenda; it has accumulated financial and bureaucratic power; and it has come to terms with some of its main rivals. These successes undoubtedly add luster to the reputation of the SASAC's boss, Li Rongrong, who had already enjoyed a reputation as an intelligent and effective bureaucrat. The Politburo Standing Committee member in charge of the SASAC and the broader economics portfolio, Huang Ju, undoubtedly must share in a certain enhancement of reputation as well. These shifts in power and mission are changing the economic and political landscape in China.

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## Notes

<sup>1</sup> The literature on Larry Lang and his critics is already vast. For a taste, see Mei Fong, "Corporate Critic Is a TV Hit in China; Larry Lang's Governance Push Wins Him Fans among Investors and Enemies at Companies," *Wall Street Journal*, October 11, 2004, sec. C, p. 1. See also Joseph Fewsmith's contribution to this issue of *CLM*, "China under Hu Jintao."

<sup>2</sup> The text of the regulation, "Temporary Regulations on the Transfer of Enterprise State Assets to Management Strata," is available at <http://www.sasac.gov.cn/gzjg/cqgl/200504150122.htm>.

<sup>3</sup> For example, a Reuters Shanghai dispatch of April 15, 2005, said, “China has banned management buyouts of major state-owned companies.... The ban goes into effect immediately.”

<sup>4</sup> The first is often called Document 96, because it was the 96th document issued by the State Council Office during 2003; “Guanyu guifan guoyou qiye gaizhi gongzuo de yijian,” <http://www.sasac.gov.cn/gzjg/xcgz/200408100189.htm>. The second is usually referred to as Regulation 3, because it was the third issued by the SASAC and the Ministry of Finance in 2003; “Qiye guoyou chanquan zhuanrang guanli zhanxing banfa,” <http://www.sasac.gov.cn/gzjg/cqgl/200408040125.htm>.

<sup>5</sup> Wang Shengke, “As the SASAC Expounds Doctrine, It Leaves Space for the Localities,” *21 shiji jingji baodao*, April 27, 2005, <http://www.nanfangdaily.com.cn/jj/20050428/zh/200504270005.asp>, and Duan Xiaoyan, “The Opportunity for 145,000 Medium and Small State Enterprises,” *21 shiji jingji baodao*, April 25, 2005, <http://www.nanfangdaily.com.cn/jj/20050425/dd/200504250064.asp>.

<sup>6</sup> For in-depth discussion of the new rules, see Cheng Mingxi and Cheng Zhiyun, “Detailed Rules for MBOs Are Now Established; SASAC Ends Camouflaged MBOs,” *Jingji guanchabao*, April 16, 2005, <http://business.sohu.com/20050416/n225209229.shtml>; Duan Xiaoyan, “Astonishing Tides? SASAC Released Details of New MBO Regulations,” *21 shiji jingji baodao*, April 16, 2005, <http://business.sohu.com/20050416/n225209133.shtml>; and Zhang Ningzhe, “Fully Understanding the New MBO Regulations,” *Caijing*, April 15, 2005, <http://caijing.hexun.com/mag/column.aspx?clmID=4&ArtID=6894>.

<sup>7</sup> Barry Naughton, “Selling Down the State Share: Contested Policy, New Rules,” *China Leadership Monitor* 2 (spring 2002).

<sup>8</sup> “Shares End at 6-Year Lows as Textiles Dive,” May 23, 2005, <http://www.lawinfochina.com>.

<sup>9</sup> James T. Areddy, “Chinese Stocks Slide on Market Revamp; Key Index Hits 6-Year Low after Beijing Picks 4 Firms to Sell Nontradable Shares,” *Wall Street Journal*, May 10, 2005, and “Pilot Sale Plans Cautiously Welcomed,” *Shenzhen Daily*, May 16, 2005, [http://en.ce.cn/Markets/Equities/200505/16/t20050516\\_3841246.shtml](http://en.ce.cn/Markets/Equities/200505/16/t20050516_3841246.shtml).

<sup>10</sup> Sun Min, “Regulator to Push Forward with Reform,” *China Daily*, May 17, 2005, <http://www.lawinfochina.com/display.asp?ID=5001&DB=3>.

<sup>11</sup> “Eight to Ten Firms in the Second Batch of Experimental Firms, Possibly in Mid-June,” May 17, 2005, [http://www.ce.cn/economy/stock/gushigc/gcpl/200505/17/t20050517\\_3848483.shtml](http://www.ce.cn/economy/stock/gushigc/gcpl/200505/17/t20050517_3848483.shtml).

<sup>12</sup> Xinhua News Agency, “SASAC Adopts Four Measures to Accelerate the Listing and Reform of Central Enterprises” (reporting on the December 14, 2004, conference of central enterprise CEOs), [http://chinanews.xinhuanet.com/2004-12/14/content\\_3389021.htm](http://chinanews.xinhuanet.com/2004-12/14/content_3389021.htm).

<sup>13</sup> “Behind the Scenes at Full Circulation Policymaking; Difficulties in Timely Policy,” *Zhongguo jingyingbao*, May 14, 2005, [http://www.ce.cn/economy/stock/gushigc/gcpl/200505/14/t20050514\\_3831736.shtml](http://www.ce.cn/economy/stock/gushigc/gcpl/200505/14/t20050514_3831736.shtml).

<sup>14</sup> Wang Shengke and Mo Fei, “Guozi ‘guanwang’ gushi gaige” (The SASAC “wait and see” on equity market reforms), *21 shiji jingji baodao*, May 16, 2005, <http://www.nanfangdaily.com.cn/jj/20050516/zh/200505160007.asp>.

<sup>15</sup> Wang Shengke, “Accelerating the Restructuring of Central Enterprises; Guiding Thoughts for 21 Sectors to Be Announced,” *21 shiji jingji baodao*, May 11, 2005, <http://www.nanfangdaily.com.cn/jj/20050512/zh/200505110009.asp>.

<sup>16</sup> Wang Shengke, “SASAC Redefines Itself,” *21 shiji jingji baodao*, January 5, 2005, <http://www.nanfangdaily.com.cn/jj/20050106/zh/200501050004.asp>.

<sup>17</sup> Wang Shengke and Mo Fei, “Guozi ‘guanwang’ gushi gaige.”

<sup>18</sup> Qinghua Tongfang is state-controlled, but the ultimate ownership of those shares is exercised by the Ministry of Education, through Qinghua University. Wang Shengke and Mo Fei, “Guozi ‘guanwang’ gushi gaige.”

<sup>19</sup> “Eight to Ten Firms.”

<sup>20</sup> Guo Fenglin, “Should Money or Shares Be Allocated to the Social Security Fund?” *Zhongguo zhengzhuanbao*, March 30, 2005, [http://www.ce.cn/economy/fund/jjts/200503/30/t20050330\\_3461430.shtml](http://www.ce.cn/economy/fund/jjts/200503/30/t20050330_3461430.shtml).

<sup>21</sup> Wang Shengke, “Accelerating the Restructuring.”

<sup>22</sup> Ibid.

<sup>23</sup> “Bankrupt SOEs Face Final Curtain,” *China Daily*, May 12, 2005, [http://en-1.ce.cn/Business/Macro-economic/200505/12/t20050512\\_3811709.shtml](http://en-1.ce.cn/Business/Macro-economic/200505/12/t20050512_3811709.shtml).

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<sup>24</sup> “Mother-in-law” is the traditional label for the contentious oversight role exercised by government bureaucrats over state enterprises. Du Yu and Wang Jintao, “Li Rongrong Says: SASAC Has Not Become ‘Mother-in-Law Plus Boss,’” Xinhua News Agency, May 12, 2005, <http://business.sohu.com/20050512/n225528745.shtml>.

<sup>25</sup> “Law on State Assets: Back to the Starting Line after Ten Years; A Visit with Li Shuguang, Professor at University of Politics and Law and Drafting Group Member,” *Nanfang zhoumo*, April 21, 2005, <http://southcn.com/finance/nfcm/nanfangzm/200504210921.htm>; a condensed English version with some added material is in “Mulling Over Law on State Assets,” *China Daily*, May 20, 2005, [http://service.china.org.cn/link/wcm/Show\\_Text?info\\_id=129406&p\\_qry=SASAC](http://service.china.org.cn/link/wcm/Show_Text?info_id=129406&p_qry=SASAC).

<sup>26</sup> Wang Shengke, “SASAC Redefines Itself.”

<sup>27</sup> Long Xicheng, “After the Arguments: Finding a New Reform Assignment for State Asset Reform,” *21 shiji jingji baodao*, May 11, 2005, <http://www.nanfangdaily.com.cn/jj/20050512/zh/200505110001.asp>.

<sup>28</sup> Xinhua News Agency, “SOEs See 31.2% Profit Growth in 1st Quarter,” April 19, 2005, [http://en.ce.cn/Business/Macro-economic/200504/19/t20050419\\_3644351.shtml](http://en.ce.cn/Business/Macro-economic/200504/19/t20050419_3644351.shtml).