The State Asset Commission: A Powerful New Government Body

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Introduction

A powerful new government body, the State-Owned Assets Supervision and Administration Commission (State Asset Commission, or SAC, for short), was authorized at the 10th National People's Congress in March 2003 and set up operations in June. The SAC represents an important step forward toward clarifying and modernizing the administration of government property rights and improving the oversight of government managers. But at the same time, because the SAC is intended to gather the reins of many types of authority, there is a risk that it will become an overly powerful and interventionist body. The establishment of the SAC reveals much about the sources and exercise of political power in contemporary China. The commission's head, Li Rongrong, exemplifies the newly emerging technocratic leadership. But, the manner in which the SAC falls in the middle of contention over personnel authority also shows how old-style political considerations remain central.

The SAC

Since the beginning of the reform process, an effort has been made to gradually remove the government from direct management of the economy. A well-functioning market economy clearly requires an environment in which firms can enter, exit, compete, and profit under fair and predictable rules. Direct government control of the economy is incompatible with this type of fair competition. At the same time, the Chinese government has been reluctant to privatize its large state-owned enterprise (SOE) sector. A large state sector has been maintained for both political and economic reasons. Political factors have included fear of unemployment, fear of breaking communist ideological taboos through the open embrace of "privatization," and reluctance to abandon the power and patronage that come with control of enterprises. Economic justifications for going slowly in downsizing the state sector can also be found. In the first place, the government cannot simply withdraw from the economy and assume that a free atmosphere will be created in which a functioning market will spring to life. Quite to the contrary, the experience of the former Soviet Union has brought home once again the realization that the abrupt withdrawal of any predictable government role creates a vacuum that stifles healthy economic development. Moreover, without an adequate regulatory and social security environment, abrupt change can cause very real distortions to markets, as well as serious abuses.

Thus, rather than privatize, China has consistently sought to create new institutions to manage state enterprises better. The SAC is the latest effort in this ongoing process. In comparison with past efforts, the SAC is distinctive because, in the first place, its mandate is exceptionally broad, in that it encompasses many types of power. But at the same time, a major effort has been made to specify and give legal sanction to the exercise of that power. For example, the SAC's exercise of rights and responsibilities is precisely limited to 196 enterprises directly under the State Council. Thus, the SAC represents an effort to strengthen the institutions of central government oversight and control while limiting those institutions' scope to a precisely delimited number of firms.

Indeed, the often-repeated objective of the SAC is to "fully realize [the government's role as] investor and owner [*tixian chuziren daowei*]." The SAC was mandated by the 16th Party Congress in November 2002 to establish a "new state asset management system in which authority, duty, and responsibilities are united, and in which management of assets, personnel, and affairs is unified."[1] This mandate means that the SAC will assume a combination of powers previously dispersed among different ministries and agencies and will thus operate as a kind of "superministry." The "Implementing Regulations" of May 13, 2003, specified that "rights and interests [*quanyi*]" are among the attributes of ownership that the State Asset Commission is supposed to exercise.[2] The SAC, then, does not simply represent the scaling back of government authority through the creation of an arm's-length regulatory body. Quite the contrary—the SAC is designed to be a powerful and authoritative body, and there are many unresolved issues about the scope of its power.

As the new head of the SAC, Li Rongrong, describes it, one of the primary objectives in establishing the SAC is to separate the government's functions as investor and owner of state assets from its function as public manager of society as a whole.[3] There are three important dimensions in which the power that the SAC wields is more clearly specified and demarcated than was the case with Chinese government agencies in the past. First, the SAC exercises core responsibilities and authority that are (by Chinese standards) clearly specified. The most important are to monitor enterprise operations in order to protect the rights of the government owner; to dispatch supervisors to audit and monitor the enterprise; to appoint members of boards of directors and establish procedures for appointing managers; to approve major decisions in enterprise operation, including merger, bankruptcy, and the issuance of new securities; and to report on enterprise performance and revenue to the appropriate level of government.[4] The SAC is *not* to infringe on the operational autonomy of the enterprise or to combine social policy with enterprise management. Correspondingly, no other government body is allowed to exercise ownership rights over enterprises.[5] In the "Implementing Regulations," and in subsequent speeches and interviews with SAC leaders, much stress has been given to the importance of rights and responsibilities as defined by laws. This emphasis is, however, undermined by the uncomfortable fact that there actually is no national "Law on State-owned Assets," the National People's Congress having failed to take decisive actions on the thicket of complex and contentious issues involved. Still, in the interim, the "Implementing Regulations" are there to provide legal guidelines.

Second, the SAC only has authority over a specific list of enterprises. The SAC has published a list of the 196 firms that are subordinate to it and has made clear that its orders are directly binding on only those firms.[6] The list contains all the big, central government–controlled firms, but it is otherwise extremely diverse. It covers the big industrial corporations such as the petroleum, petrochemical, electricity, automobile, and telecom enterprises, as well as those that evolved from the old military industry ministries. However, it also includes the big, Chinese government–run conglomerates based in Hong Kong (such as China Resources) and the big state trading and import-export companies. It also includes a surprising number of specialized construction companies and research institutes and quite a few high-tech enterprises, including Great Wall Computer and Alcatel Shanghai Bell. This last enterprise is now majority-owned (50 percent plus one share) by the foreign partner, France's Alcatel. The SAC's brief is to act as the agent of government ownership of these firms—and *not* of other firms. The SAC has no authority over financial enterprises.

Third, following logically from the previous point, the establishment of the SAC at the national level frees local governments to clarify the management structures of their own enterprises. Local governments—including provinces and cities or prefectures just below the province level—are to set up their own asset commissions along the model established by the SAC. However, the provincial-level bodies are not to be subordinates or subdivisions of the SAC. Instead, they are to function as representatives of local-government ownership of assets. Upper-level asset commissions are supposed to exercise "guidance and supervision" over their counterparts at lower levels, but local bodies are to be special agencies subordinate to local governments. This distinction amounts to a very important step, because China has long wrestled with the conundrum whereby enterprises that were theoretically owned by the public, or by the "whole people," were in fact controlled by different levels of government. Thus, the establishment of the new asset commission system is important as a realistic acknowledgment (finally!) that Chinese public enterprises are in fact owned and controlled by specific government bodies. This division of power potentially frees local governments to proceed with accelerated restructuring, or even privatization, of local firms.

Absorbing Power from the Bureaucracy

The SAC is absorbing functions—and therefore power and responsibility—previously exercised by a range of different government agencies. Before 1998, direct control over state-owned enterprises was exercised by the industrial ministries. In an earlier reform effort, the direct management of enterprise operations—which the ministries exercised—was supplemented by financial oversight carried out by a precursor to the SAC, called the State Asset Management Bureau. This bureau, which existed from 1988 to 1998, was a weak agency, at best a mere auditor. In 1998, the industrial ministries and the precursor State Asset Management Bureau were abolished, and the "ownership" rights over public firms were in fact dispersed among many different government agencies. New organizations were created, and existing organizations gained new powers. The SAC has now been established in an attempt to draw back together many of these dispersed ownership rights.

One of the prime beneficiaries of the weakening of the industrial ministries and the withdrawal of the government from direct control was of course the enterprise managers themselves. With greatly reduced government oversight, managers gained greater freedom to run their enterprises as they saw fit—but also much greater freedom to engage in transactions in which they had a personal interest. Many government enterprises set up holding companies with numerous subsidiaries, and many contracts were let to friends, relatives, and other favored parties. Moreover, the process of insider privatization—or managerial buy-outs—became common and was weakly monitored. Enterprise managers and their supervisors in local governments became much wealthier than before. At the same time, asset stripping and the bleeding of resources out of state-owned firms became serious. One very clear and often-repeated objective in the establishment of the SAC is to increase oversight, increase transparency, improve monitoring, and reduce the diversion of government assets into the hands of managers and their cronies.

Besides increasing the monitoring of enterprises, the SAC will absorb control over finances (from the Ministry of Finance), over practical management affairs (from the State Economics and Trade Commission, or SETC), and over personnel (from specialized bodies under the State Council and the Chinese Communist Party [CCP]). The most straightforward of these powers is the control over finances—auditing and appraisal—which is being transferred from the Ministry of Finance and strengthened. The other transfers involve economic and political issues, which are described below.

Economic Issues

When the industrial ministries were abolished in 1998, most of their remaining functions were taken over by the SETC. The SETC was the final incarnation of a body that has existed throughout most of the reform period (indeed, throughout much of the history of the People's Republic of China), a body that has usually been known as the State Economic Commission (SEC). The SEC traditionally served as a counterweight to the State Planning Commission. It was concerned less with long-range planning and more with coordinating day-to-day enterprise operations and advocating for enterprise interests. As an advocate of expanded enterprise rights and autonomy, it became a significant force in favor of industrial reforms during the 1980s. As it happens, Zhu Rongji worked his way up in the State Economic Commission before being appointed mayor of Shanghai in 1987 (and eventually premier). In the years after 1987, the SEC was repeatedly reorganized, but there was always some organization playing its role. The SEC was amalgamated with the State Planning Commission, but subsequently separated out again under a variety of different names, including the Production Office in the early 1990s and the SETC in the late 1990s. In the most recent reorganization, the SETC has been abolished and its functions divided between the SAC and the other new superministry, the Ministry of Commerce. The new head of the SAC, Li Rongrong, was, immediately prior to his appointment, the last head of the SETC.

The SAC's role in taking over the functions of the SETC naturally causes some concern. Although the SETC in the old days was an advocate of reforms in general, it was also definitely an old-style command-and-control organization. The experienced bureaucrats there prided themselves on their ability to intervene in situations, solve problems, and coordinate among government enterprises. Although the SETC after 1998 was a much-changed and modernized body, it certainly carried on some of the old traditions. One of the functions the SAC will take over from the SETC is the management of "industrial policy," the effort to accelerate structural change in ways that favor emerging sectors and nurture future Chinese global corporations. These days, much of the job of formulating and advocating sector-specific industrial policies has been delegated to quasi-independent "trade associations." These trade associations—seen as World Trade Organization (WTO)-compliant—advocate for the interests of firms in their industries. There are some 250 of these trade associations, and while nominally independent, they have reported to the SETC. The Industrial Policy section of the SETC, to which the trade associations report, will be transferred to the SAC.[7]

More broadly, the right of ownership, which the SAC will exercise, includes approving major decisions such as mergers, bankruptcies, major takeovers, and the issuance of new securities. The notion that strategic decision making at the firm level should be under the purview of the firm's owners can hardly be debated. But, there are many open questions about how aggressively the SAC will pursue its mandate to reorganize and restructure state firms. The "Implementing Regulations" make it clear that the SAC will not merely work on improving corporate governance and instituting enterprise reforms. It will also actively foster the restructuring of firms in order to adjust the sectoral composition of government-owned assets and improve competitiveness. Moreover, Li Rongrong has spoken repeatedly of the need to "protect and increase" the value of government assets. He recently referred to the need to "expand the state-owned economy's ability to control, to influence, and to catalyze [the rest of the economy]."[8] How serious is Li Rongrong in expressing the desire to expand the relative weight of the state sector?

This question can only be addressed by considering the broader framework within which the SAC will define and implement its mandate.[9] On one hand, it is clear that Li Rongrong is anxious to prevent further asset stripping and insider privatization. In that sense, he would like to slow down the irregular and illicit flow of state assets into private hands. On the other hand, Li is committed to "boosting the liquidity of state assets," meaning that market forces should determine the value of assets and that the government should be able to gradually draw down its stake in certain firms. Indeed, Li argues that state holdings should expand in some areas while contracting in other areas. State ownership is appropriate in five categories, according to Li: national security sectors, natural monopoly sectors, sectors that provide important public goods or services, important national-resource sectors, and key enterprises in "pillar industries" and high-tech sectors. This categorization is a step forward in that it at least articulates a rationale for state ownership and recognizes that there is no reason for continued state control over ordinary competitive sectors. But, Li argues that the large, centrally controlled state enterprises should stay in government hands and be strengthened. "If you cannot be one of the top three firms in your sector," he warns enterprise managers, "be prepared to be acquired by some other firm." Li is doubtless fully aware that he is echoing Jack Welch, the legendary chairman of General Electric. In Li's view of the world, a continued role for state ownership is clearly compatible with a dynamic, strategically informed market position. Indeed, he appears to believe that identifying the sectors in which state ownership is appropriate is merely the first step in determining and strengthening the competitive advantage of these firms.

As a guide to action, Li lays out four principles for adjusting state ownership. The first is to conform more closely to the five types of sectors outlined above. But, this first principle includes, incongruously, "rebuilding the old industrial bases in the Northeast" (!). The second principle is to push enterprises to merge, form joint ventures, and improve their corporate governance systems so that ownership can be diversified and state assets can become more liquid. Still, the state will maintain controlling stakes in "important" enterprises. The third is to nurture a batch of internationally competitive large firms and to encourage them to list on domestic and foreign stock markets. The fourth and final principle is to accelerate the pace at which inefficient firms are weeded out, with policy favoring more frequent bankruptcies in order to clear away the leftover dead wood of inefficient state firms within five years. These principles have the unmistakable ring of politically motivated compromises: each bold movement is checked by a countermovement, as if different constituencies needed to be placated. The whole thing has an "on the one hand, but on the other hand" quality to it. An additional source of ambiguity over the mandate lies in the fact that the SAC also has the financial responsibility to ensure that its enterprises do not overspend their total wage bills as well as the obligation to "coordinate with the relevant authorities" to make sure laid-off workers are properly taken care of.[10] Thus, despite stated intentions, the SAC has not fully renounced its responsibility for social management. Overall, while some of the restructuring principles make sense, it is not at all clear that they add up to a coherent vision. How Li will actually proceed in practice can only be determined with time.

One area in which the short-term contradictions are played out has to do with the attitude of local governments toward privatization. The announcement that a new state asset management system was pending touched off a wave of rapid privatizations by local governments. Ultimately, both the Ministry of Finance and the new SAC responded by telling local governments to hold off on further privatization and wait until the new management system was in place.[11] But, this episode is also susceptible to contrasting interpretations. Local governments may have understood from the outlines of the new system that they would achieve greater clarity and security in their property rights under the new system and could therefore proceed with privatization. Alternatively, local governments may have rushed into a new wave of privatization because they believed that the new system would make privatization more transparent and more equitable, and therefore also more difficult. The privatization process would slow, but more importantly, insider privatization that would benefit local cadres personally would become significantly more difficult to effect. From the perspective of this interpretation, local governments were only taking advantage of the uncertainty and lack of monitoring during the transition to a new system, seizing upon the prolonged uncertainty associated with institutional change (the topic of my contribution to the previous issue of *China Leadership Monitor*).

In fact, it may well be the case that the new SAC wishes to proceed promptly with renewed privatization but finds the path anything but clear. On the one hand, the fiasco that was the program to sell state shares to fund pension liabilities (see "Selling Down the State Share" in *CLM* 2) has made the SAC wary of renewed programs to sell government shares in the marketplace. Li Rongrong has repeatedly said that the SAC will not resurrect the state share reduction program in the immediate future. He has reaffirmed support for the principle, but he claims that such a step must wait until a significant process of market development has passed. On the other hand, concerns about the corruption and loss of public assets involved in nontransparent insider privatization mean that the SAC is not likely to bless a large-scale sell-off of local assets anytime soon. It should be noted that local government–owned firms are the ones in which the significant privatization action is likely to occur, because local firms are much more likely to be in ordinary competitive sectors than are the comparative handful of large, centrally run firms. With these two extreme options temporarily foreclosed, Li Rongrong has little choice but to stress processes of auctioning off strategic stakes in public firms, avoiding both the stock market and the insider privatization process. Ultimately, only time will tell whether the contrasting currents will end up creating an environment that Li Rongrong can exploit to craft a dynamic policy, or whether they will simply end up constraining him within a narrow range, repeating a pattern of failed industrial policies and endless restructurings.

Political Issues

The most pointed political issues surrounding the creation of the SAC relate to the fact that it has assumed responsibility over the appointment of managers and directors of firms. This transfer of authority creates two immediate political issues. The first is a struggle between different systems over the personnel power. Personnel power—the ability to appoint the *nomenklatura*—has long been the core of Chinese Communist Party power. Moreover, as long as the CCP makes the key personnel decisions, we can't really expect that the decisions will be made on a predominantly economic basis. The second issue is a simple question of patronage, which affects control and thus political futures.

When the industrial ministries were scaled back in 1998, it was initially uncertain who was to exercise the appointment power over managers in large, central firms, which had previously been controlled by the party committees in the ministries. Initially, Zhu Rongji set up an organization under the State Council to oversee these firms, with control over personnel and auditing. Called the Large Firm Work Committee, it was subordinate to the Ministry of Personnel. But after a while, this assignment of power was challenged by Li Peng and others, who wanted to reassert the Chinese Communist Party's control over personnel decisions and of course check Zhu Rongji's control over this significant chunk of patronage. The result was the creation of a compromise body, the Central Enterprise Work Group (*zhongyang qiye gongwei*), which maintained personnel and audit control over the large firms but was brought under the direct control of the Standing Committee of the Politburo of the CCP. Thus, while compromising to some extent with State Council bureaucrats, the CCP reasserted its interest in personnel decisions and brought the CCP Organization Department into the game as well. According to some accounts, the Central Enterprise Work Group became a hotbed of patronage and political intrigue.

The functions of this body have now been brought into the SAC. That means that the composition of the SAC must represent a balancing act between Chinese Communist Party and State Council interests, just as the Central Enterprise Work Group before it represented such a compromise. Indeed, we find ample evidence that this expectation holds true. The SAC has eight full commission members. It is possible to identify four as coming primarily from the State Council system and four as coming primarily from the Chinese Communist Party system. Interestingly, the head of the SAC, Li Rongrong, is *not* the party secretary of this body. Instead, this job is held by Li Yizhong, who is first vice chairman of the SAC. But the SAC web site is unusually specific about the responsibilities and duties of commission members. It specifically says that Li Rongrong is the boss: he "assumes the main responsibility of SASAC and he is the first person of responsibility in SASAC. He will take charge of the SASAC party committee's work when Mr. Li Yizhong is out of Beijing for business." Li Yizhong, in turn, takes over the main responsibility when Li Rongrong is out of town. Thus, the web site in effect says, "even though Li Rongrong isn't the party secretary, he's still the boss." It is stretching things only a little to say that the SAC is a joint venture of the State Council and the Chinese Communist Party, with the State Council having 50 percent plus one share.

Personnel and New Systems of Power

The SAC's creation thus sheds light on the evolution of political power in contemporary Beijing. Li Rongrong exemplifies the type of new technocratic leaders gaining authority in the past few years. He has assumed substantial responsibilities in the past few years and is generally judged to have handled them well. Born in 1944 in Suzhou, Li graduated from Tianjin University with a degree in chemical engineering and then spent his career in Wuxi. He did not join the Chinese Communist Party until December 1983, at age 39. Thus, he was, either by choice or by qualification, not involved in party activities until the postreform effort by Deng Xiaoping and others to bring more skilled and professional individuals into the party (see Cheng Li's article in this issue). Li moved up in Wuxi and then in the Jiangsu provincial government. In June 1992, he was brought to the State Council Production Office, the replacement for the State Economic Commission that was set up by Zhu Rongji almost immediately after he moved to Beijing and became vice premier (in March 1991). From that time on he stayed in the State Council SETC or State Development Planning Commission (SDPC) systems, becoming head of the SETC in February 2001. While heading the State Economics and Trade Commission from February 2001, he had a broad portfolio, covering enterprise reform, commerce, and environmental protection, and acquitted himself reasonably well; he has been viewed as a rising star.[12] He worked closely with Zhu Rongji and is said to have continuing good relations with Wen Jiabao now that the latter has taken over the premiership.

A position like the one held by Li Rongrong is particularly important because the nature of the Chinese system is changing. Managers of big firms—especially state firms, but perhaps later private firms as well—are increasingly represented in the political system. Thus, at the 16th Party Congress, the heads of the four state banks and of the three big petrochemical firms became Central Committee members or alternates. Indeed, the vice chair of the SAC, Li Yizhong, exemplifies this intertwining of political and economic/managerial roles. Li Yizhong has been chairman and party secretary of the Sinopec Group (one of China's largest state-run corporations) since 1998 and was also an alternate member of the CCP Central Committee. In the context of reciprocal accountability that characterizes the Chinese system, this development is quite important, and it gives continuing political power to those who have the right to appoint enterprise managers. The struggle for patronage power between the organization departments of the CCP and the industrial management departments of the State Council must be seen in this context. Of course, key personnel decisions will continue to be bargained out among the very top political leadership, but administrative agencies like the SAC will play an important role in the way this political power is exercised.

Notes

[1] "Li Rongrong tan guoziwei jigou shezhi yu zhineng" (Li Rongrong discusses the creation of the State Asset Commission structure and capabilities), Xinhuawang (New China net) (transcript of press conference), May 22, 2003, http://finance.sina.com.cn/g/20030522/1413343503.shtml.

[2] PRC State Council, "Qiye guoyou zichan jiandu guanli zhanxing tiaolie" (Temporary regulations on the supervision and management of state-owned enterprise assets), State Council Order 378, May 13, 2003, http://www.sasac.gov.cn/zcpg/zcpg_0003.htm, hereafter referred to as "Implementing Regulations."

[3] "Li Rongrong Discusses the Creation."

[4] "Implementing Regulations," Articles 13, 14, 17, and 21. The regulations carefully maintain distinctions between different types of enterprises. For example, the SAC does not appoint managers of joint-stock companies organized under the Company Law, only members of the boards of directors. Several other specifications have been suppressed in this brief discussion.

[5] "Implementing Regulations," Articles 7 and 10.

[6] The list of all 196 firms can be found in *Shanghai zhengquanbao wangluoban* (Shanghai securities daily Internet edition), May 23, 2003, http://finance.sina.com.cn/g/20030523/0712343786.shtml.

[7] Liu Xuemai and Qin Lidong, "Li Rongrong deng gaoceng zouma shangren guoziwei 21 siju jiagou chuding" (Li Rongrong and other top leaders appointed; An organizational structure of 21 subordinate bureaus and sections provisionally established), *21 shiji jingji baodao* (21st-century economic reporter), April 9, 2003, http://finance.sina.com.cn/g/20030409/1318329658.shtml.

[8] "Guoziwei zhuren Li Rongrong: Guoqi yaoan shangshi gonsi yaqiu guifan" (SAC head Li Rongrong: State-owned firms ought to conform to procedures for listed companies), *Shanghai zhengquanbao*, June 13, 2003.

[9] This section draws on a number of substantive articles posted on the SAC web site: "Heli buju tiaozheng jiegou; Fazhan zhuangda guoyou jingji: Fang guowuyuan guoyou zichan jiandu guanli weiyuanhui zhuren Li Rongrong" (Rational layout, adjusting structure; Develop a robust state economy: Visiting SAC head Li Rongrong), June 13, 2003; "Li Rongrong: 196 jia zhongyang qiye shixing guquan duoyanghua buhui xiyouhua" (Li Rongrong: The 196 central enterprises should diversify ownership of their shares, definitely not privatize), July 9, 2003; and "Guoziwei qihang; Goujian youxiao guoyou zichang jianguan tizhi;

Quanding wuda hangye goujian yusuan tixi shixian guoyou xichan baozhi cengzhi" (The SAC gets going: Establishing an effective system to oversee state property; Outlining five big sectors; Creating a budgeting system to preserve and increase the value of state property), July 16, 2003, http://www.sasac.gov.cn/ldjh/ldjh_0033.htm, 0043.htm, and 0047.htm, respectively.

[10] "Implementing Regulations," Articles 25 and 26. See also Zhang Wenkui, "Xin guozi tizhi hexin: Zhongyang he difang de changquan bianjia huafen" (The core of the new state asset system: Demarcation of central and local property), *21 shiji jingji baodao*, June 2, 2003, http://www.sasac.gov.cn/gzyj/gzyj_0005.htm.

[11] Liu Xuemei, "Cang zai guoziwei zhiqian? Gedi dapi maiguozi yinqi gaoceng guanzhu" (Rushing to get done before the SAC? Large and widespread sales of state assets elicit concern at the top echelon), *21 shiji jingji baodao*, May 16, 2003, http://finance.sina.com.cn/g/20030516/1529341383.shtml, and Zhang Wenkui, "The Core of the New State Asset System."

[12] Dai Yiming, "Zhongguo disidai caijing guoyuan chulie" (China's fourth generation of economic bureaucrats is emerging), *Fenghuang zhoukan* (Phoenix weekly), January 2003, http://wenxuecity.com/BBSview.asp?SubID=newsdirect&MsgID=16544.