SEPTEMBER 2016

ASIA PACIFIC FOUNDATION OF CANADA

FONDATION ASIE PACIFIQUE DU CANADA

STATE-OWNED ENTERPRISES AT A CROSSROADS: KEY FEATURES OF CHINA'S NEW SOE REFORM

CONTEMPORARY CHINA:
AN ASIA PACIFIC FOUNDATION OF CANADA RESEARCH SERIES

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During the Third Plenary Session of the 18th Communist Party of China Central Committee in November 2013, the new Chinese president Xi Jinping revealed his plan to rejuvenate China through a series of comprehensive reforms. State-owned enterprises (SOEs) sat at the top of this ambitious agenda. Facing enormous pressure from the global economic slowdown, these giant enterprises are to be completely overhauled to shoulder the mission of reinvigorating the Chinese economic miracle.

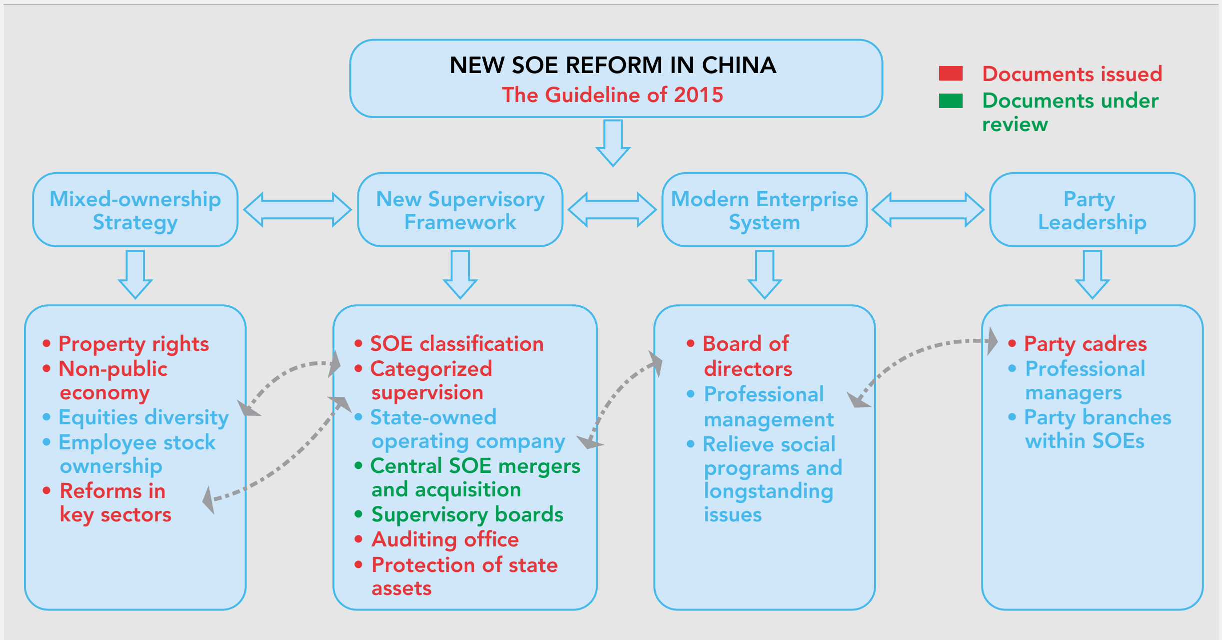
This is not new in the history of Chinese political economy. Over the past 40 years, there have been repeated attempts to reform the SOEs. The initial round of restructuring began in 1978, when Deng Xiaoping, the chief architect of China's Reform and Open Up policy, agreed to introduce a contract responsibility system and offer SOE managers more autonomy after three decades of tight state control.[1] Under this new contract responsibility system, the state no longer assumed all profits and losses; instead, local managers were held responsible for the profits and losses of their own enterprises. Subsequently, the mid-1990s witnessed a massive privatization movement, with 86% of all SOEs being restructured and 70% of them being partially or fully privatized. From 1998 until 2005, the number of SOEs fell from 64,737 to 27,477; over 30 million SOE workers were laid off and lost their "iron rice bowl" in what was supposed to be a life-time employment system.[2] In the past decade, the Chinese government pushed for a third round of reforms, which transformed the SOEs into national economic flagships and sent 92 SOEs into the ranks of the Fortune Global 500.[3] These industrial magnates are now best known for their hunt for natural resources around the globe and ambitious cross-border mergers and acquisitions.

This paper will offer a summary of the key features of the new SOE reform under President Xi Jinping and an in-depth analysis of government policies and institutional design. It will discuss the pace and scope of the reform, and how it has helped the new Chinese leadership consolidate its legitimacy while creating new room for policy implementation. It will also analyze the manifest weaknesses in the established political institutions that may hinder the prospect of such experiments in the long term.

OVERVIEW OF THE NEW REFORM: A "1+N" FRAMEWORK

Xi's reform initiative for the SOEs features a "1+N" framework, or a framework with a clearly conceived blueprint that was to be gradually implemented through subsequent policies. The blueprint for the reforms was introduced in the guideline to deepen reform of state-owned enterprises issued by the State Council in September 2015. The document highlights four prospective changes for SOEs: mixed-ownership reform, new supervisory rules for state assets, a modern enterprise system, and Party leadership. This is a much more comprehensive plan than past SOE reforms by Xi's predecessors. Yet it was a much delayed plan, introduced two years after Xi's introduction of his vision in 2013. According to Li Jin, a senior researcher at the State-owned Assets Supervision and Administration Commission (SASAC), "since late 2013, the reform plan for SOEs had been under discussion. The primary explanation for the postponement is the difficulty to balance all parties' interests. Beijing needs to solicit public opinions and make strategic arrangements in order to maximize support."[4] Recently, Beijing has been accelerating policy composition and implementation. In a press conference held in March, Xiao Yaqing, the newly appointed chairman of SASAC, confirmed that 12 documents aiming to implement the reform blueprint have been issued; another three are currently under review.[5]

Figure 1. Reform initiatives of the new SOE reform in four key dimensions



MIXED-OWNERSHIP ECONOMY

The centerpiece of the new SOE reform is to deepen the development of the mixed-ownership economy. Essentially, this refers to an effort that incorporates private investments into state capital. Previous Chinese leaders have relied on similar practices: relevant data on Chinese stock markets shows that over the period from 2005 to 2012, exchange listed state holding companies had attracted 638 private investments, the value of which reached RMB1.5T.[6] However, Xi has brought new energy and seriousness to the cause. The guideline aims at strengthening the property rights system, not only for the public economy but also for the non-public economy. It also emphasizes the necessity of supporting the healthy development of the non-public economy by abolishing all forms of unreasonable regulations, eliminating hidden barriers, and devising specific measures to facilitate the entry of non-public enterprises into franchising fields. There are two specific goals that the mixed-ownership strategy aims to achieve. The first is to promote equities diversity. Under this policy, private capital and other state-owned investments are welcome to hold shares of the SOEs; state capital is also encouraged to seek opportunities and profits in private enterprises. SOE overall listing, a practice of absorbing other affiliated SOEs to achieve an overall listing for the entire group in stock market, is highly encouraged as the ideal way to keep the whole process fair, transparent, and competitive. SOEs are also allowed to experiment with employee stock ownership plans.

NEW SUPERVISORY INSTITUTIONS OVER STATE ASSETS

Along with the prospect for a new blended economy, this reform also seeks to establish new institutions to strengthen supervision over state assets. It has creatively classified SOEs into two categories – for-profit entities and those dedicated to public welfare – to allow the development of specialized supervision. For-profit SOEs, especially those in highly competitive industries and sectors, will be market-based and stick to commercial operations, and should aim to increase state-owned assets and boost the economy. They are expected to be pioneers in the experimentation of the mixed-ownership strategy. Public welfare corporations and those operating in industries and areas that are vital to national security and economic stability will nonetheless serve to improve people’s life quality and provide public goods and services. Private investors are still allowed to share the pie, but there will be restrictions on their franchising and business operations. This reform also encourages the establishment of state-owned capital operating companies to accelerate the transformation of SASAC, the primary SOE administrative agency in China. Existing supervisory boards inside SOEs will co-operate with the government’s auditing office, which is mainly responsible for supervising the operation of state assets overseas.

MODERN ENTERPRISE SYSTEM

The third aspect of the new reform is to establish a modern enterprise system. The 2015 guideline has sought to elevate the importance of the board of directors within SOEs by expanding their autonomy in economic decision-making, personnel selection and appointment, and salary distribution. It has also proposed to bolster the role of the market in professional personnel management, which may be read as a signal to challenge the entrenched privilege of the Party apparatus in the selection of SOE leaders. Moreover, this reform contains a bold move: it is committed to relieving SOEs of their residue obligation to provide education, social welfare, and health care benefits to the dependents of their employees and retirees. SOEs will no longer serve as the all-compassing social organizations that defined citizens’ economic, social, and political life in the pre-1978 era. Former premier Zhu Rongji carried out similar policies in the 1990s, which was a show of determination for reform. However, some observers also believe that these policies incurred massive layoffs and contributed to social instability in the years that followed.

PARTY LEADERSHIP

Last but not least, this reform surprised many observers by stressing Party leadership. It plans to redefine the identity of the Party’s cadre in SOEs. Those cadres will continue to enjoy concentrated political power appropriate to their administrative ranks, and maintain their connections with the Party and government organizations. However, they will receive much less financial compensation than their non-cadre counterparts. They are nonetheless allowed the opportunity to switch between these two identities. According to Zhang Chunxiao, a professor at Peking University, “Party leadership could be considered as a safety valve for SOE development since it reduces obstructions to change. Also, proper oversight of SOE operations will maintain sound market order.”[7] Recently, Beijing once again called for consolidated Party leadership of the SOEs. Publishing in Party magazine Qiushi in June, SASAC underscored the point: “Major policies involving national security or macroeconomic regulation and controlling strategy should be studied and discussed by the Party organization before being decided by the board of directors.”[8]

INSTITUTIONAL INNOVATIONS

In addition to the comprehensiveness of the reform, there are two major institutional innovations in the new reform that have helped Xi put his vision into practice. By echoing Deng's legacy, Xi has creatively chosen to use the SOE reform as the linchpin of the political and economic overhaul. His reinvigoration of the leading group tradition has also contributed to efficient, highly co-ordinated governance.

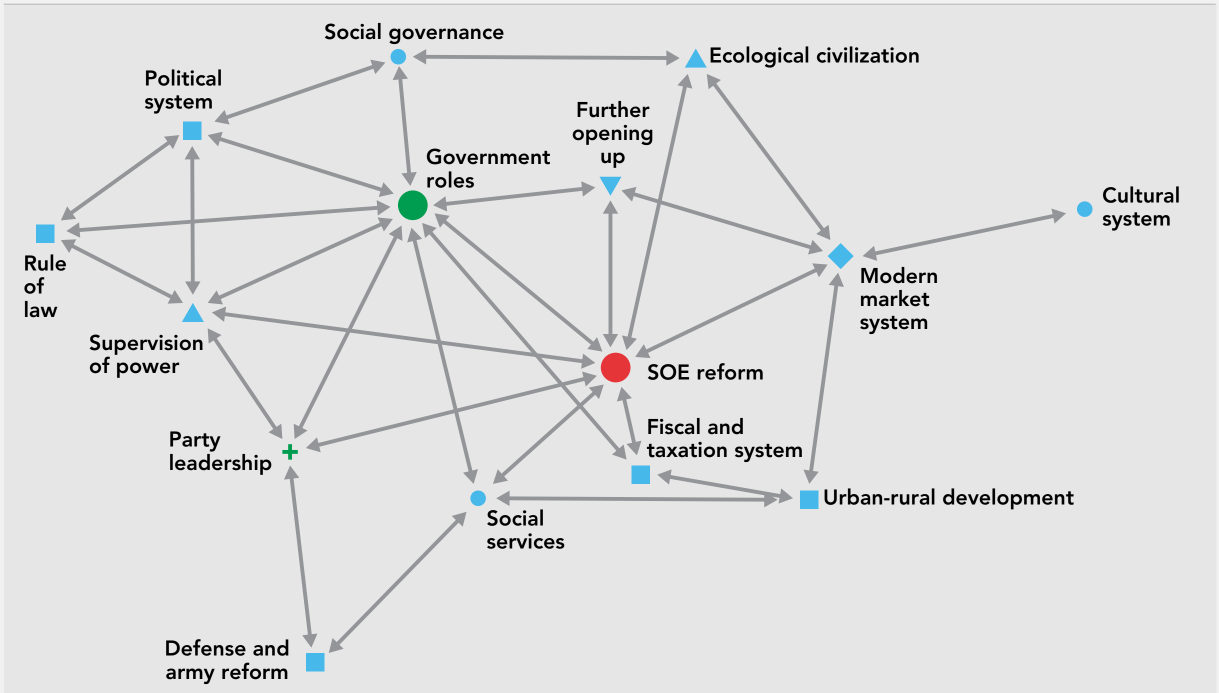
ECHOING DENG'S LEGACY

SOE reform is just part of Xi's overall plan to rejuvenate China through an economic and political overhaul. This new vision first appeared in The Decision on Major Issues Concerning Comprehensively Deepening Reform, an official document approved at the Third Plenary Session of the 18th Communist Party of China Central Committee in 2013. Since Deng's pioneering move to launch the Reform and Open-Up program in 1978, every Third Plenary Session has been designed as a platform to propose significant measures of change. "It sets agendas, makes decisions, clarifies measures, and releases signals," says Xi, "that help people to understand key government policies in the next five to ten years."[9] Since taking office, Xi has moved quickly to define his leadership by echoing Deng's legacy. Unlike his predecessors, who carried out partial reforms during their reign, Xi sought for comprehensive restructuring of everything from economic systems to environmental protection to social well-being.

Sitting at the top of Xi's agenda, SOE reform is without doubt a supreme priority for Beijing. A social network analysis that summarizes all proposed reforms at the 18th Party Congress also shows that SOE reform is serving as a linchpin of the comprehensive reforms. It is a multi-dimensional operation that relies on successful reforms in the following areas:

- It needs reforms in government's role and transformation in supervision of power to restrain the government's control over the market and reduce internal corruption;
- It requires an institutionalized fiscal and taxation system created by fiscal reforms and tax reform;
- Reform to further open up the economy will bring about a liberalized, open, and orderly economy that promotes competition among SOEs and efficient economic exchanges;
- Improvements related to social services, ecological civilization,[10] and the Party's leadership are equally necessary, as SOE restructuring needs to pay attention to its social consequences (laid-off workers and reduced social welfare, in particular), its environmental impacts, and its new identity under the Communist Party.

Figure 2. A social network analysis of proposed reforms in the 18th Party Congress



Soon after the initial introduction of the new reform, the National Development and Reform Commission (NDRC), the core microeconomic management agency under the State Council, included SOE reform in its Opinions on Key Issues of China's Economic Structure Reform in late 2013. This annual report, endorsed by the State Council, serves as the guiding principle that sets the priorities of the Chinese government's agenda. In 2014, SOE reform was ranked third on that agenda; this year, it was the top priority in the annual NDRC report. In the past two years, the State Council also increased the number of associated agencies: compared to 14 in the beginning, 22 ministries and committees – almost 80% of all departments of the State Council – are now getting involved in SOE reform.[11]

AN INSTITUTIONAL EFFORT TO RECENTRALIZE POWER

In the Chinese political structure of "fragmented authoritarianism," Xi's challenges include overcoming sectional interests within the Party apparatus and local interest groups that may resist intervention from the central leadership. He also has to carefully navigate the divisions between the conservatives and the liberals within the Party and control political power as an effective leader.[12] Xi's institutional innovation to legitimize his leadership in SOE reform is mainly through his reinvigoration of the leading group tradition. In 2013, he established the new Central Leading Group for Comprehensively Deepening Reform under the Politburo and reformed the structure of the existing Central Leading Group for Financial and Economic Affairs. Two years later, with Xi's permission, the State Council set up its own Leading Group for Deepening SOE Reform, and SASAC also started its own research group on SOE reform.

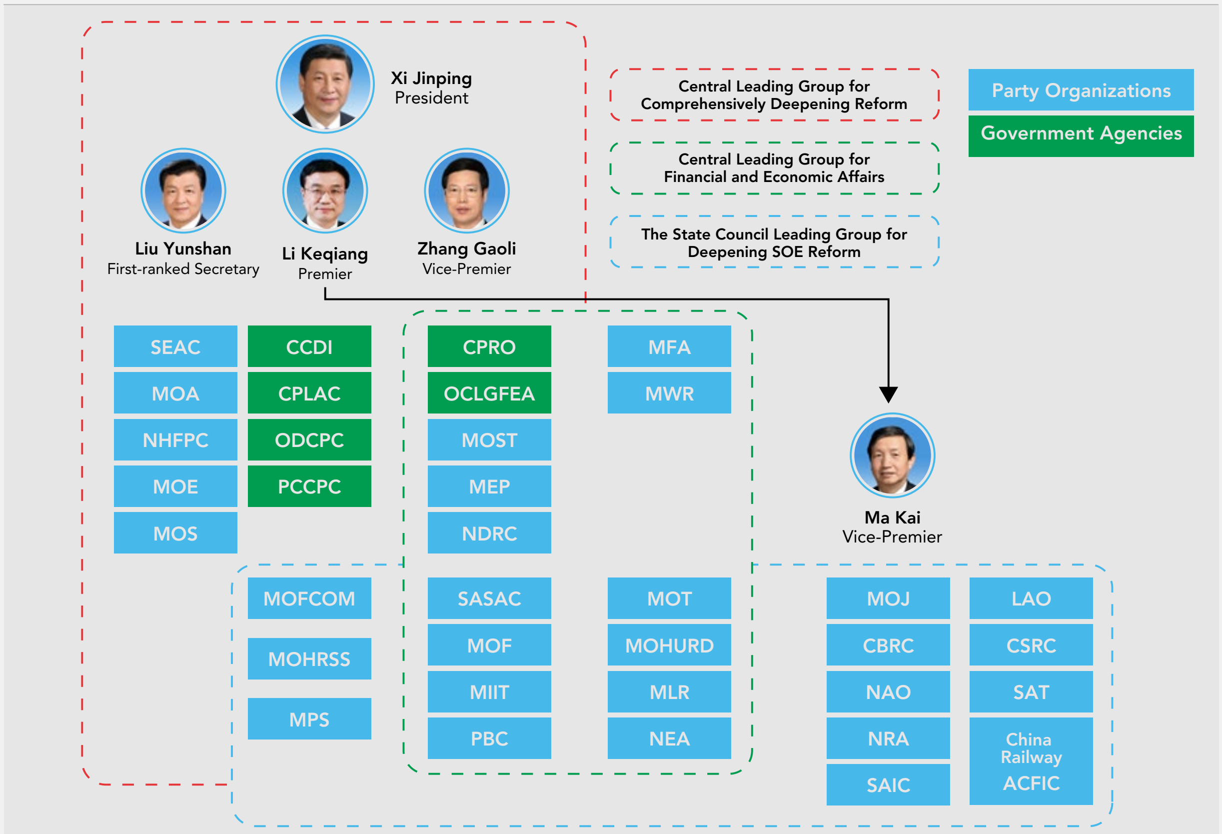
Responsibilities of those leading groups include organizing regular meetings, collecting and evaluating alternative reform plans, and making relevant and timely policy decisions.

Although the inner workings of the leading groups remain unclear, it has become apparent that the Central Leading Group for Comprehensively Deepening Reform, with Xi in charge, is the paramount organization in the pyramid political system. It breaks the convention that leading groups only operated in six traditional areas – personnel, culture and education, Party affairs, finance and economy, national security, and diplomacy. These conventional leading groups are usually controlled by the corresponding members of the Politburo. The current comprehensive leading group, however, combines 21 Party commissions and government agencies and has thus become the largest leading group in Chinese history. It also oversees general reforms in the economic system and ecological civilization, the political system and the rule of law, the cultural system, social services, Party leadership, and Party discipline. The transition from "small" group to "large" group, according to Zhou Wang, a lecturer at Nankai University, "helps to solve the problem of fragmented and overlapping responsibilities in policy decisions, which contributes to future strategic planning and deployment at the central level."[13]

In the meantime, Xi has changed the dynamics of the existing Central Leading Group for Financial and Economic Affairs. On the one hand, by including policy implementation agencies from the State Council, the leading group no longer serves as the linkage connecting supreme Party leaders and bureaucrats; rather, it becomes an integrated, non-institutionalized decision-making body with de facto power. On the other hand, contrary to previous presidents who have let their premiers act as the state's authority on the economy, Xi has decided to take the lead himself. More importantly, as both central groups share representatives from nine Party and government agencies, such changes have led to speculation that Xi is intently reshuffling the decision-making process – the impacts of the Central Leading Group for Financial and Economic Affairs over economic planning and management will be undermined; its power will then be transferred into the Central Leading Group for Comprehensively Deepening Reform, where Xi has assumed the supreme leadership. At the bottom of the hierarchical political system, by contrast, sits the Leading Group for Deepening SOE Reform affiliated with the State Council. It is under the command of Ma Kai, a vice-premier responsible for industry, transportation, and finance, and a team member of the aforementioned central leading groups. Despite the leading group's large scale (it involves 22 departments), 12 important organizations are now directly reporting to Xi. Therefore, rather than decision-making, the leading group under the State Council is mainly responsible for policy implementation.

Elizabeth Economy, a prominent scholar of Chinese politics with the Council on Foreign Relations, states that "Xi's vision for a rejuvenated China rests above all on his ability to realize his particular brand of political reform: consolidating personal power by creating new institutions, silencing political opposition, and legitimizing his leadership and the Communist Party's power in the eyes of the Chinese people."[14] In aspects of institutional creation and reconstruction, Xi has no doubt achieved great success. With integrated institutional arrangements, the Central Leading Group for Comprehensively Deepening Reform is able to expedite the reform process in all dimensions. Indeed, so far it has held 25 meetings – once a month on average – and endorsed 13 policies for SOE reform. This is incomparably ambitious compared to the past.

Figure 3. New institutional design in central leading groups



List of Abbreviations

ACFIC	All-China Federation of Industry and Commerce	**CBRC**	China Banking Regulatory Commission
CCDI	The Central Commission for Discipline Inspection	**CPLAC**	Central Political and Legal Affairs Commission
CPRO	Publicity Department of the Communist Party of China	**CSRC**	China Securities Regulatory Commission
LAO	Legislative Affairs Office of the State Council	**MEP**	Ministry of Environmental Protection
MFA	Ministry of Foreign Affairs	**MIIT**	Ministry of Industry and Information Technology
MLR	Ministry of Land and Resources	**MOA**	Ministry of Agriculture
MOE	Ministry of Education	**MOF**	Ministry of Finance
MOFCOM	Ministry of Commerce	**MOHRSS**	Ministry of Human Resources and Social Security
MOHURD	Ministry of Housing and Urban-Rural Development	**MOJ**	Ministry of Justice
MOS	Ministry of Supervision	**MOST**	Ministry of Science and Technology
MOT	Ministry of Transport	**MPS**	Ministry of Public Security
MWR	Ministry of Water Resources	**NAO**	National Audit Office
NDRC	National Development and Reform Commission	**NEA**	National Energy Administration
NHFPC	National Health and Family Planning Commission	**NRA**	National Railway Administration
OCLGFEA	The Office of the Central Leading Group for Financial and Economic Affairs	**ODCPC**	Organization Department of the Communist Party of China
PBC	People's Bank of China	**PDCPC**	Publicity Department of the Communist Party of China
SAIC	State Administration of Industry and Commerce	**SASAC**	State-owned Assets Supervision and Administration Commission
SAT	State Administration of Taxation	**SEAC**	State Ethnic Affairs Commission
SOE	State-owned enterprise		

KEY WEAKNESSES

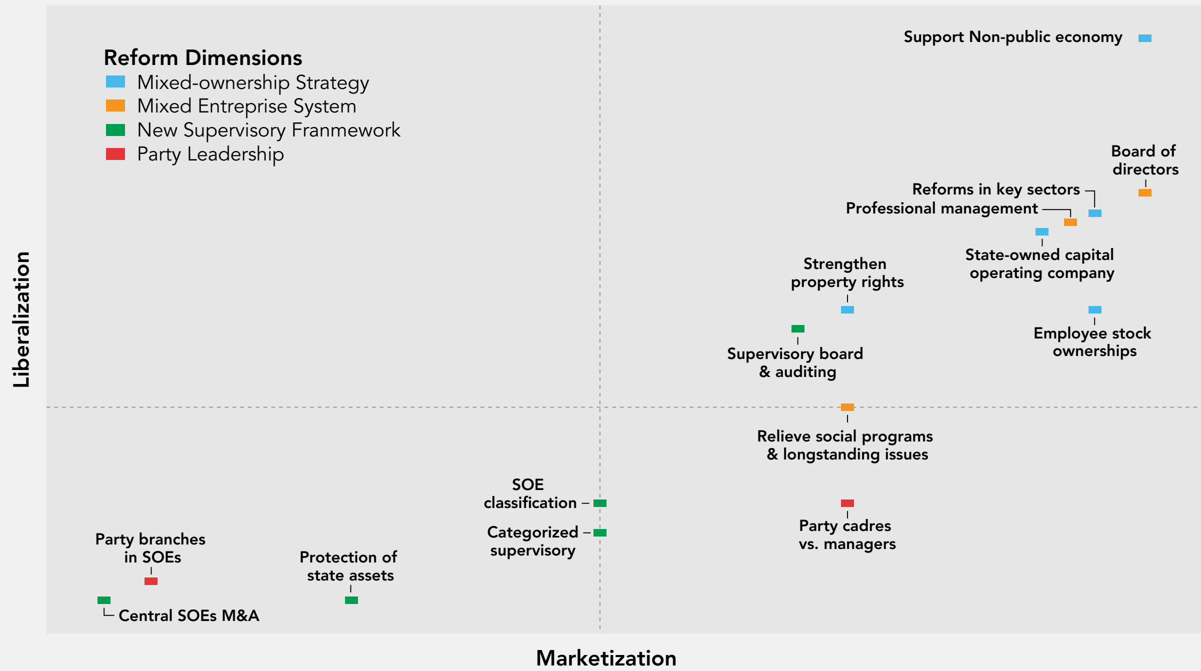
If successful, Xi's SOE reform promises to create politically reliable, economically competitive, and institutionally viable enterprises with global influence: real, modernized national flagships to achieve the "China dream." But there are also problems that may hinder the full realization of this plan. Inherent inconsistencies in some of the reform policies, for example, have caused concern. The reform practice has also turned out to be very selective at this stage. Though new room has been created for enterprise experimentation at the local level, the freedom to explore alternative local reform plans is still limited under the existing administrative hierarchy. These issues will potentially influence the contour of China's SOE reform as it moves forward.

POLICY INCOHERENCE

An outstanding concern comes from domestic private investors. Undeniably, Xi has proposed a few liberal experiments in pursuit of a blended economy. These include equities diversification, employee stock ownership, and overall listing of SOEs in stock market. Behind these aggressive moves, however, lie some fundamental questions: How large could the scale of the blended economy become? How can the minority shareholder rights of the participating private investors be protected? These concerns are certainly not unfounded; after all, according to the updated supervisory regime that Xi expects to achieve, private capital will indeed suffer remarkable restraints in industries where the state has enjoyed privilege. Even worse, the line between for-profit entities and public welfare corporations is not crystallized. Along with existing privileges, the government still has the right to define national strategy and public welfare, through which power it could make specific and instrumental adjustments in SOE classification. Therefore, it has become clear that the future of private investors in China still depends heavily upon the state's willingness to withdraw from its special interests. The prospect of privatization and marketization becomes less likely than expected.

In the meantime, calling for the protection of state assets in the new supervisory framework has provoked equally serious criticism abroad. A Financial Times analysis speculates that government officials, who are generally risk-averse with regard to state capital, tend to overestimate capital value and hold such value against the market.[15] Some also believe that Xi's intensified anti-corruption crusade could have further aggravated this problem in spite of its good intentions. To avoid unfriendly attentions from the Party's disciplinary committee, government officials are inclined to push forward mergers and consolidation between SOEs. Indeed, last year witnessed the emergence of six "mega-SOEs" under SASAC; the total value involved in these mergers was reportedly over RMB 2T.[16] By contrast, experiments involving private investments have fallen significantly behind. It remains unclear whether those newly established industry giants will monopolize the market and reduce competition, or whether they could reduce excess and backward production capacity to advance supply-side structural reform as Beijing anticipates. Either way, it is certain that private investments are excluded from the game, and they will have to face even greater challenges than before. Recent data shows that private sector debt

Figure 4. Significant policy inconsistencies



has fallen from 48% of total assets in 2008 to 35% in 2015. In the first half of 2016, SOE investment surged while investment by private sectors continued to fall.[17] The fast expansion of SOEs contradicts both people's expectation of the mixed-ownership reform and Beijing's efforts to rebalance the economy. As warned by Professor Huang Yiping at Peking University, "financial resources will further flow from high-efficiency parts of the economy to low-efficiency ones, increasing the misallocation of capital and increasing China's economic risks."[18]

The Party's endeavour to strengthen and improve its leadership of SOEs has suffered criticism as well. In August 2016, Xi further emphasized the socialist direction of SOEs by stating that "Party organizations within enterprises should act as the political nucleus."[19] Scott Kennedy, an expert in Chinese business and political economy, argues that the combination of Party supervision and modern corporate governance stresses the hierarchy among the Party, the government, and SOEs.[20] With the Party at the helm, Kennedy reasons, political royalty could overshadow market incentives; the autonomy of professional managers may be undermined.

MOVING CONGLOMERATES FORWARD: SELECTIVE REFORM PRACTICE

Reform of the central SOEs predates Xi's presidency. In the 1990s, Premier Zhu Rongji implemented the famous "grasping the large, letting go of the small" policy; the 2000s witnessed the SOEs' transformation into national conglomerates under President Jiang Zemin's "going global" agenda. Xi's current reform also targets those national flagships. In July 2014, the government launched three experiments in six of the major central SOEs; in the 2016 government report, Premier Li Keqiang announced seven more experiments to be implemented within the year.

Xi's commitment to moving forward these conglomerates can be well explained by their recent economic performance. In the past year, Chinese SOEs experienced negative growth at -5.4%. The general income of central SOEs dropped 7.5%, while local SOEs only suffered a 2.5% decrease. Nevertheless, Xi's reform practice has turned out to be highly selective, if not arbitrary. So far, there are no definite criteria in Beijing's selection of experimental enterprises. For example, among the first six SOEs selected for reform experiments, Sinopharm Group and China National Building Material Company became the two candidates for the mixed-ownership strategy. Sinopec, one of the three largest energy and chemical companies in China, had launched its own mixed-ownership campaign well before the government's decision, yet was unexpectedly excluded from the list. Meanwhile, the government seems to deliberately avoid large-scale reforms; each selected SOE is only allowed to conduct one or two experiments. The standard that matches SOEs with appropriate experiments, however, remains unknown.

Figure 5. SOEs' economic performance, 2013-2015

RESTRAINED LOCAL EXPERIMENTATION

In addition to the story at the central level, the new SOE reform also includes a series of provincial initiatives that may affect the development of local SOEs. In September 2013, Shanghai became the first place to launch its own reform program. By the release of the 2015 guideline, there were 25 different provincial reform plans.

Xi has expressed his support for local experimentation. Speaking in a meeting of the top reform planning committee last October, he said that local experiments could be given greater latitude if successful. Xi also called for tolerance of errors in trials. Not surprisingly, many errors have been exposed at this very early stage of local reform. Within just three months, a cluster of 24 provinces released their updated reform initiatives, in which they revised points that are not in accordance with the central plan. The most outstanding change is with the mixed-ownership strategy. In their first draft, most provinces called for radical restructuring to incorporate private capital into local SOEs; further, they set goals with a definite deadline. For example, in Chongqing, the government aimed to apply the mixed-ownership policy to two-thirds of local SOEs and finish overall stock market listings in all suitable SOEs in the next three to five years. Those goals and deadlines, however, were later deleted from the revised initiatives. In fact, as the mixed-ownership reform has been postponed among central

Figure 6. SOEs experiments

Reforms	Experiments	Achievements	Future plans
Modern enterprise system	Board of directors	4 central SOEs	Extend to local SOEs; 3-5 per province
	Personnel management	4 central SOEs	Extend to local SOEs; 3-5 per province
	Professional managers	None	2-3 central SOEs
	Salary distribution	4 central SOEs	
	Relief of social problems	None	2-3 central SOEs; 2-3 local SOEs
New supervisory framework	State-owned capital operating companies	2 central SOEs 17 local SOEs	110 central/local SOEs
	Central SOEs mergers and acquisitions	12 central SOEs	Further expansion
	SOEs information disclosure	None	Start selection
Mixed-ownership economy	Reform in key sectors	2 central SOEs	Aim to complete by 2020
	Employee stock ownership	None	10 central SOEs; 10 local SOEs

SOEs, provincial leaders had to admit in early 2016 that the previous plan was too immature. The co-ordination between local and central governments has not been easy and straightforward in these complex reforms.

Even within the implementation of permitted reforms, provinces have yet to to achieve complete consensus. The latest PwC consulting report on the new SOE reform shows that among the 29 SOEs pioneering the establishment of state-owned capital operating companies, four are from the financial sector, 10 have pure industrial backgrounds, and the remaining 15 specialize in industrial investment.[21] The difference between the provinces is significant: whereas Shandong, Chongqing, and Henan prefer enterprises with pure industrial backgrounds, Guangdong, Jiangsu, Zhejiang, and Sichuan choose industrial investment corporations. There may be two possible explanations. First, selective practices at the central level fail to provide local governments with clear instructions. No definition of state-owned capital operating companies is identified in the 2015 guideline; of the two central-level experimental enterprises, State Development & Investment Corporation specializes in industrial investment, while China National Cereals, Oils and Foodstuffs Corporation is a purely industrial SOE. Second, provinces may have their own interests and preferences. Therefore, despite the assumed supreme authority, Beijing still faces challenges in realizing Xi's vision in local implementation.

IMPLICATIONS FOR CANADA

Canada and the rest of the world should pay attention to the current development of the new SOE reform, as any changes in Chinese politics and economy may engender great global repercussions. The Canadian government and investors should be ready to embrace some of Xi's initiatives as opportunities to expand the domestic market in China. Meanwhile, they should be cautious of policy constraints and uncertainty in the Chinese political context.

On the one hand, Xi's reform initiatives welcome the participation of foreign investments. As stated by Shen Danhua, the spokesperson for the Ministry of Commerce, Beijing encourages the contribution of foreign capitals to the new SOE reform, mainly through mergers and acquisitions.[22] The Chinese government will accelerate the modification of existing laws on foreign corporations. In addition, according to Premier Li's government report to the National People's Congress in March 2016, the government has reduced 50% of restrictions on overseas investments listed in the Catalogue for Industries for Guiding Foreign Investments.[23] Foreign investors will be granted greater market access to the service sector and the general manufacturing sector. Just as China's access to the World Trade Organization in 2001 integrated the Chinese economy with the world, SOEs' opening to foreign investors will create new opportunities for foreign companies to do business in China. The Canadian government should reinforce bilateral dialogues with the Chinese government to establish co-operation under the new SOE reform.

On the other hand, existing regulations and policy constraints in China will pose challenges to Canadian investors and call for a cautionary response. Data shows that Beijing's support for foreign investment in the new reform does not lead to the bloom of foreign investors' mergers with and acquisitions of domestic enterprises as expected. Instead, as amendments to laws regulating foreign companies is far behind the SOE reform initiatives, many foreign investors are hesitant to make decisions. Besides, China's emphasis on the protection of state assets may have stoked nationalist sentiments at home, which, according to Bloomberg, has forced the government to reduce its reliance on foreign investments while pursuing the new reform. In 2014, some foreign corporations – including KKR & Co. and the Ontario Teachers' Pension Plan – were invited to the bidding for US$17.5B shares of Sinopec. In the end, 96% of shares were sold to private companies in mainland China and Hong Kong. The price, however, according to investment research firm Sanford C. Bernstein & Co., was 20% lower than expected.[24] The Canadian government, therefore, should pay particular attention to future amendments to laws regulating foreign corporations in China and inform investors of recent, important changes. It also needs to consult with the Chinese government to broaden consensus over investment policies and regulations.

At the same time, Ottawa should realize that the new SOE reform may not be as smooth as anticipated. Beijing has set out the vision and adapted institutions, but there are many problems from inside and outside that do take time to overcome. Despite the underlying inconsistences in the reform initiatives, Canada still needs to keep an eye on the promulgation of complementary policies in order to clarify how the Chinese government carries out its central plan to overhaul the economy. Canada should also wait and see whether those selective practices related to central SOEs will bring any significant changes and create more opportunities for foreign investors. Rather than framing the new SOE reform as a victory of entrenched interest groups, the Canadian government should keep its policies both vigorous and flexible.

ENDNOTES

1. The Reform and Open Up policy refers to the Chinese government's dramatic decision in 1978 to reshuffle its economy along the lines of the market-based Western model. The post-1978 era is commonly known in China as "the age of reform and open up," while the era between 1949 and 1978 is known as an age of planned (and stagnant) economy.
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