

# China accelerates privatisation of state-owned enterprises

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Recent Chinese Communist Party (CCP) announcements indicate it is preparing to speed up the privatisation of state-owned companies (SOEs), by converting the vast majority into joint stock companies, open to private investment, by the end of the year. While praised by the corporate media as a milestone in opening up the Chinese economy, this move will pave the way for a massive assault on workers' jobs and conditions.

Collectively, SOEs still account for nearly half of all China's economic production, assets and profits, despite the substantial boosting of the private sector since the 1980s as a result of the processes of capitalist restoration. The proportion is nearly 70 percent in sectors such as mining, energy production, defence and heavy industry.

There are about 155,000 SOEs, worth a combined \$US17 trillion, with roughly two-thirds owned by local governments and one-third controlled by the central government. Of these, some 100 SOEs, all controlled by the central government, constitute the lion's share of public sector economic activity, and include the 10 largest corporations in China.

Globally, China's largest SOEs account for 5–10 percent of global revenue in coal mining, banking and industrial production. These are the corporations that primarily have been targeted for conversion into joint-stock companies.

Currently, SOEs are owned fully by the government. Even among those companies that are publicly traded on financial markets, the CCP owns the vast majority of shares, giving it control. The government is now offering up to 50 percent of available shares to domestic and foreign private investors. Hence the term joint-stock company, as SOEs would be co-owned by public and private entities. The CCP would still retain

ultimate control of the companies, with the right to select the board of directors.

The government has claimed that nearly 90 percent of the 100 biggest SOEs have completed the conversion process into joint-stock companies, with the remainder expected to be ready by the end of the year.

SOEs are highly profitable, and are often exploited as sources of wealth and political power by high-ranking officials within the corrupt CCP bureaucracy. Such is the political importance of SOEs that the politicians who control the largest companies are often referred to as holding "fiefdoms." The biggest SOEs often own company towns populated by hundreds of thousands of workers, with their own hospitals and schools, in addition to factories and offices.

Since the 2008 global economic breakdown, however, SOEs have come under increasing financial strain, largely surviving through massive borrowings from Chinese banks and government handouts. This is underscored by their ballooning debt over the past decade. It now stands at 175 percent of Chinese gross domestic product, an unprecedented figure. With this enormous debt posing a serious threat to financial stability, the CCP is hoping for an influx of foreign investment into the SOEs.

Beijing is also looking to boost the global competitiveness of the major SOEs. One of the provisions in the conversion process allows SOEs to form partnerships with private corporations within China and internationally, in order to acquire access to new technologies and assets.

Under pressure from American companies, US President Donald Trump has just initiated measures aimed against Chinese requirements that foreign investors in joint enterprises share technology and know-how, falsely branding this as the "theft" of

intellectual property. Depending on the findings of the US trade representative, Trump could impose trade sanctions on China.

China's SOEs have long been targets for privatisation. Over the past three decades, the social services, employment guarantees and pensions provided by SOEs have been substantially reduced. However, despite substantial pressure from international financial institutions, until now the CPC has avoided undertaking further steps toward privatisation.

Layers within the state apparatus who have carved out fiefdoms in the state-owned sector have resisted any undermining of their power and privileges. This strata, however, suffered a significant blow when leading CCP figure Bo Xilai was ousted as party secretary in Chongqing and eventually jailed on corruption charges. Bo was the most prominent defender of boosting the role of SOEs.

More fundamentally, the CCP regime fears that major job losses will provoke widespread social unrest. The CCP has retained power by suppressing strikes and protests, on the one hand, while maintaining high growth and relatively low levels of unemployment. The SOEs have been crucial, as they employ one-fifth of the total Chinese workforce.

The Chinese economy is now slowing significantly. Moreover, there is already a crisis of over-production in the steel and mining industries, where hundreds of thousands of workers have been sacked over the past two years. The transformation of SOEs into joint stock companies and their eventual privatisation could lead to a rapid rise in joblessness.

An article in the *Economist* entitled, "Reform of China's ailing state-owned firms is emboldening them," gave an indication of the scale of job losses. It cited the case of a recently privatised liquor company in Sichuan province. Immediately after municipal authorities sold it to a Chinese private equity firm, a third of the production workforce was fired.

It is not clear that the CCP will be able to transform its major SOEs into joint-stock companies. According to an article in the financial newspaper *Caixin*, 69 of the 100 major SOEs had not taken the necessary steps for conversion into joint-stock companies as of late July this year, contradicting government claims of a 90 percent completion rate.

The article, "China SOEs win concessions on taxes, fees," noted that even with government assistance, the conversion of the 69 SOEs to joint-stock companies would require an expensive and time-consuming asset evaluation process. This could lead to the imposition of taxes under the country's asset valuation laws. The article estimated that total costs could be as high as 500 billion yuan (\$75 billion).

Regardless of whether the Chinese government meets its proposed deadlines, the conversion of SOEs to joint-stock companies is a form of back-door privatisation that will accelerate the attacks on the jobs and conditions of the Chinese working class.



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