

**Comments on
Prof. Hu Angang and
Dr. Tong Daochi's works**

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1. The evolution of Chinese Enterprise (and C/G) mechanism

- **The key element : Who provide enough money ?**
- **1980s~mid 1990s : Bank provided loans
too small capital/too much debt
financial situation of SOEs much worse**
- **mid 1990s~ : how to provide sufficient capital?
let private companies grow further
invite more foreign funded enterprises
let SOEs pull public money from the market**

2. Compromise between traditional socialist ideology and the pressing need for capital

- While continuous declining of public ownership has been ideologically justified by the “Party”, some categories of SOEs are dealt as “exemption” depending on the the sectors and the company itself.
- For important sectors and companies : State needs to keep majority shareholding to keep them under the rule of “public ownership”

“Party” still plays important role in C/G

- For sectors and companies that don't fall in the above: more autonomy was acquired by the management

Some ex-SOEs and their managers are alike POEs

Who is the governor of those companies?

Is there need for bigger supervisory role for banks?

3. Private Owned Enterprises

- **Family control**
Family control is better than vacuum of control, so long as it has nothing to do with public money.
- **For POEs that need more money :**
When and how to let them make use of stock markets?

4. Challenges of China's C/G: How to overcome past customary

- **Past listed companies or managers thereof have viewed the stock markets as “money drain”**
- **One striking aspect of China's listed companies : Most listed companies are mere a subsidiaries of holding companies over them, which fact substantially undermines the functions of the market.**

4. Challenges of China's C/G (cont.): How to solve various chicken and egg problems

- It is more than clear that China's capital (stock) market will be more and more important for good cooperate governance.
- In this conjunction, China needs to grow more sound stock markets(introduce more institutional investors, reduce too much highly risky nature , establish the second board).
- In the coarse, however, China still needs to pay enough attention to the supervisory role of banks or other existing resources of C/G.