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An Analysis of State-owned Enterprises and State Capitalism in China

By

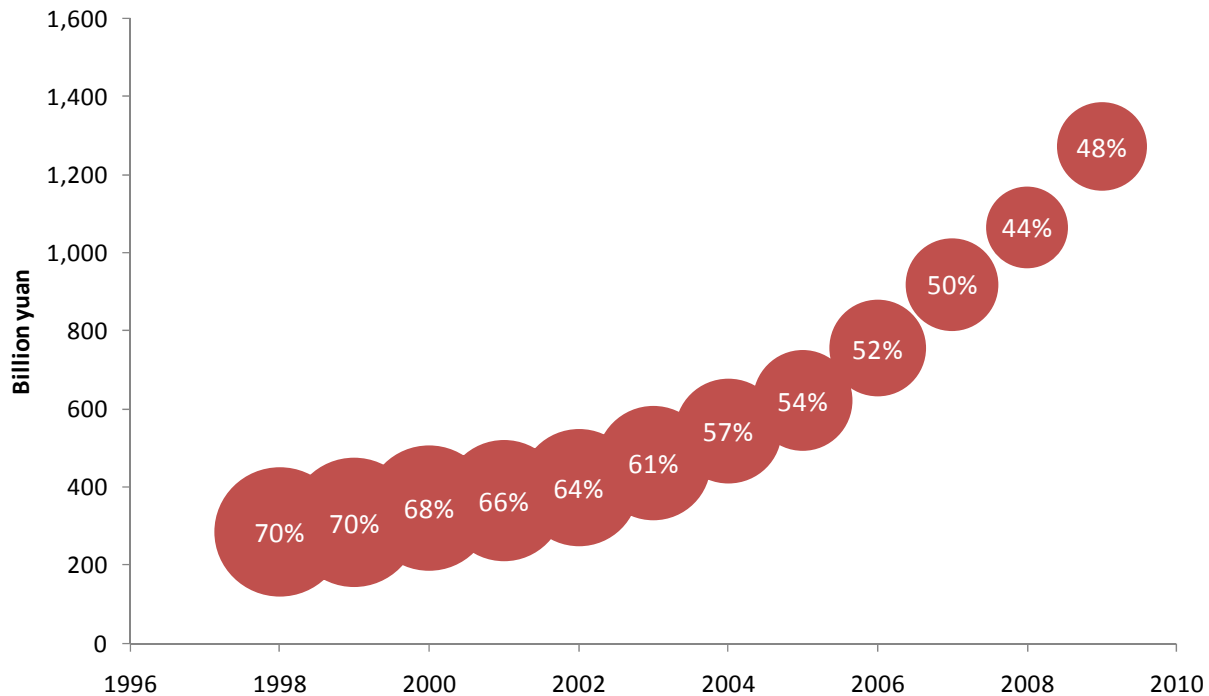
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Figure III-11: The SOE and SHE share of value added, business and other taxes and charges



Source: National Bureau of Statistics of China.

5. The observable SOE share of output

Though Chinese data on SOEs and state-holding enterprises are substantial, there is no official announcement of the weight of SOEs in the Chinese economy. The 2010 version of the WTO's *Trade Policy Review* of China dryly makes this point.²⁷ However, the OECD study of Chinese SOEs suggests a methodology that is adopted here. Specifically, the SOE share of value added (or output, if value added data are not available) for each major sector is multiplied by that sector's share of GDP.²⁸ The OECD study estimated that SOEs and SHEs accounted for 29.7 percent of GDP in 2006. This estimate is likely too low, for at least two reasons. First, the government's data on construction SOEs do not include the value added of state-holding enterprises. Including SHEs makes a significant difference with manufacturing and would likely increase the construction share as well. A review of the *D&B® Family Tree* for the China State Construction Engineering Corporation (CSCEC) indicates that the firm has 116 subsidiaries in China alone, the majority of which are in construction and construction-related industries.²⁹ As

²⁷ (World Trade Organization 2010) 54 (par. 122). "The share of SOEs' output in GDP is not available to the Secretariat."

²⁸ (Lee 2009) 6 and fn. 10.

²⁹ (D&B Family Tree for China State Construction Engineering Corporation (Beijing, Beijing China) 2011) 27-29.

but the share of imported vehicles is believed to account for less than five percent of Chinese demand.⁶⁰

Table V-8: Top SOE market share in China's automobile industry, 2010

	Mil. units	Market share
Shanghai Auto Industry Group	3.6	19.7%
Dongfeng Automobile Co., Ltd	2.6	14.7%
China FAW Group Corporation	2.6	14.2%
Changan Automobile (Group) Co. Ltd	2.4	13.2%
Beijing Auto Industry Group	1.5	8.3%
Guangzhou Auto Industry Group	0.7	4.0%
Top SOE subtotal	13.4	74.0%
Others	4.7	26.0%
Total market	18.0	100.0%

Source: China Association of Automobile Manufacturers via Haver Analytics.

There are many steel producers in China and some relatively large ones are known to be private. However, the state does have some important assets in this sector. The top SOE share of China's crude steel was nearly 18 percent in 2010, as shown in Table V-9. However, there are numerous state-owned and state controlled steel producers in China. For example, the CSY indicates that state-owned-or-controlled entities were responsible for 64 percent of gross output in the "smelting and pressing of ferrous metals" industry during 2009 and 50 percent of urban fixed asset investments. Thus, given the gaps in coverage, it is reasonable to conclude that steel production, like auto production, is predominantly state owned or controlled.

Table V-9: Top SOE share of crude steel production in China, 2010

	Mil. metric tons	Share of output
Baosteel Group	37.0	5.9%
Anshan Steel Group	22.1	3.5%
Hebei Iron & Steel 1/	20.0	3.2%
Wuhan Steel Product Group	16.6	2.6%
Shougang	14.9	2.4%
Top SOE subtotal	110.6	17.6%
Others	516.1	82.4%
Total industry	626.7	100.0%

1/ Estimated—Hebei has been growing due to restructuring, mergers, and acquisitions.
Source: World Steel Association.

⁶⁰ (China to promote auto imports in next five years: official 2010).

China's SOEs play an important role in the country's construction industry but the three enterprises identified account for only 7.1 percent of the market, as shown in the table below. Based on quarterly data from NBS, as well as 2009 data from the CSY, the total SOE share of revenue is approximately 20 percent. However, other data suggest that the state's footprint is even larger. As noted earlier, the SOEs in construction have numerous subsidiaries that are not counted in the SOE data provided for the construction industry. Data on fixed investments indicate that that SOEs and SHEs in the construction industry accounted for 55 percent of the industry's fixed asset investment in the urban areas during 2009, a strong indication that the state's share of the construction industry is close to 50 percent.

Table V-10: Top SOE revenue share in China's construction industry, 2010

	Sales revenue Bil. RMB	Share of revenue
China Communications Construction Company Ltd.	274	2.9%
China State Construction Engineering Corporation	262	2.8%
China National Building Materials Group Corporation	135	1.4%
China International Engineering Consulting Corporation	N/A	-
Top SOE subtotal	671	7.2%
Other SCEs (est.)	1,217	13.0%
Total SOE (est.)	1,888	20.1%
Others (est.)	7,491	79.9%
Total industry	9,379	100.0%

Source: Financial statements and/or auditing reports of named SOEs; and National Bureau of Statistics via Haver Analytics.

The non-ferrous metals sector also has a meaningful state presence. The top SOE's revenues accounted for approximately 20 percent of non-ferrous gross output in 2010. Based on data in CSY, the state sector accounted for 45 percent of gross output in 2009 and 32 percent of fixed urban investment. Chalco alone is said to hold a 25 percent market share in the domestic aluminum market, plus an additional six percent gained from selling aluminum produced by other companies.⁶¹ Other major SOEs, such as Minmetals, play a role in the aluminum sector as well.

⁶¹ (Lim 2011).

a subsidiary of a firm owned by a centrally owned SOE, it is unknown whether Bechtel used this steel in its federal projects.¹⁵⁶

States that have no Buy America provisions are able to use taxpayer moneys for foreign procurements as long as the state government does not seek federal funds. Thus, the SOE role in projects conducted by local governments is easier to discern. For example, Shanghai Zhenhua Heavy Industry Co Ltd (ZPMC) won the bid from the California Department of Transportation for delivering sections of the suspension portion of the east span of the San-Francisco-Oakland Bay Bridge.¹⁵⁷ According to its Web site, ZPMC is a state holding company listed on the Shanghai Stock Exchange. The firm's major shareholder is Hong Kong-listed China Communications Construction Company Limited (CCCC).¹⁵⁸ According to CCCC's 2010 Annual Report, its beneficial owner is the SASAC-owned China Communications Construction Group Limited, which owns 70.1 percent of CCCC's shares.¹⁵⁹ The contract value exceeds \$350 million out of the \$7.2 billion Bay Bridge project (*i.e.*, 4.9 percent).¹⁶⁰ Another company, Shanghai Pujiang Cable Co. (SPCCC) is supplying the one-mile main cable for the bridge, though the value of that item is not known. SPCCC, China's largest cable company, is jointly owned by a private firm and three sub-national SOEs.

China Construction America, Inc. (CCA) is a wholly owned U.S. subsidiary of China State Construction Engineering Corporation Limited (CSCEC), which CCA touts as being a publically listed firm in China.¹⁶¹ CSCEC is listed on the Shanghai Stock Exchange (listing 601668.SS), but its primary owner is the SASAC-owned China State Construction Engineering Corporation.¹⁶² CSCEC went public only recently, in July 2009, and was the world's most valuable IPO that year.¹⁶³ CCA has been successful in procuring construction contracts in South Carolina and New York. Its South Carolina projects include public schools, (e.g., at the University of South Carolina); the Chancery Building of the Chinese Embassy in Washington, D.C.; and renovation of the Alexander Hamilton Bridge (with Halmar International) the largest single-phase project (\$407 million) overseen by the New York State Department of Transportation.¹⁶⁴ In order to compete for such large projects, CCA required large bonding facilities. These were obtained

¹⁵⁶ Publicity surrounding a lawsuit against Home Depot and other firms indicates that the Buy America Act is often ignored by firms selling goods to the Federal government. See (Elias 2011).

¹⁵⁷ (Barboza 2011).

¹⁵⁸ (Wang and Levy 2011).

¹⁵⁹ (China Communications Construction Company Limited 2011) 48.

¹⁶⁰ (Barboza 2011).

¹⁶¹ (Overview: China Construction America, Inc. 2009).

¹⁶² See Attachment 1: SASAC list of Central SOEs (#48).

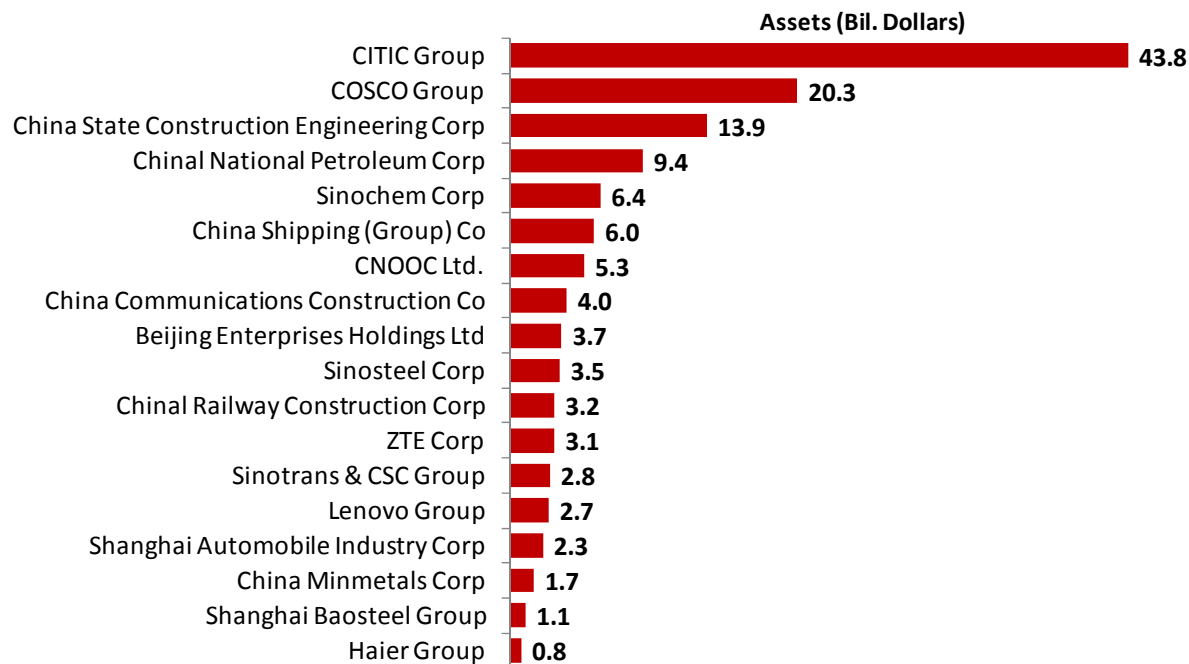
¹⁶³ (Abrami and Zhang 2011) 3.

¹⁶⁴ (Abrami and Zhang 2011) 8-10.

and Sinopec, the sovereign wealth fund CIC, and metals conglomerate Chinalco – account for about half of Chinese spending since 2005.²⁸⁴

The latest data on the top holdings of foreign assets by non-banking Chinese multinationals are shown in the table below.²⁸⁵

Figure XIII-1: Foreign assets of China's main non-banking SOEs, 2010



Source: China's Ministry of Commerce and Fudan UCC 2010.

According to a former government official who was also a high ranking executive for a centrally-managed SOE, the question as to whether SOEs are acting on their own or as a proxy for the Chinese government is moot, for most SOEs are either wholly or majority owned by the state and thus their actions are a *de facto* proxy for their shareholder's interest.²⁸⁶ One Beijing-based Australian mining executive said that the Chinese government may tell the SOEs that opportunities abound, but that it is up to the SOEs to take advantage of those opportunities. After an SOE finds a deal, however, its executives report back to their government minders,²⁸⁷ and if the minders approve, they will make sure that the SOE obtains all the approvals and

²⁸⁴ (Scissors July, 2011).

²⁸⁵ (Home Away From Home Investment 2011).

²⁸⁶ (Interview with former SOE executive 2011).

²⁸⁷ The Asian-based lawyer also indicated that SOE executives clear their deals with the government.