

An aerial photograph of a city, likely Shanghai, with several large red construction cranes in the foreground. The city buildings and streets are visible in the background, slightly hazy. The word "SAYARI" is overlaid in large white letters on a dark horizontal band across the middle of the image.

SAYARI

The World's Largest Shareholders:
Understanding China's National and
Regional SASACs

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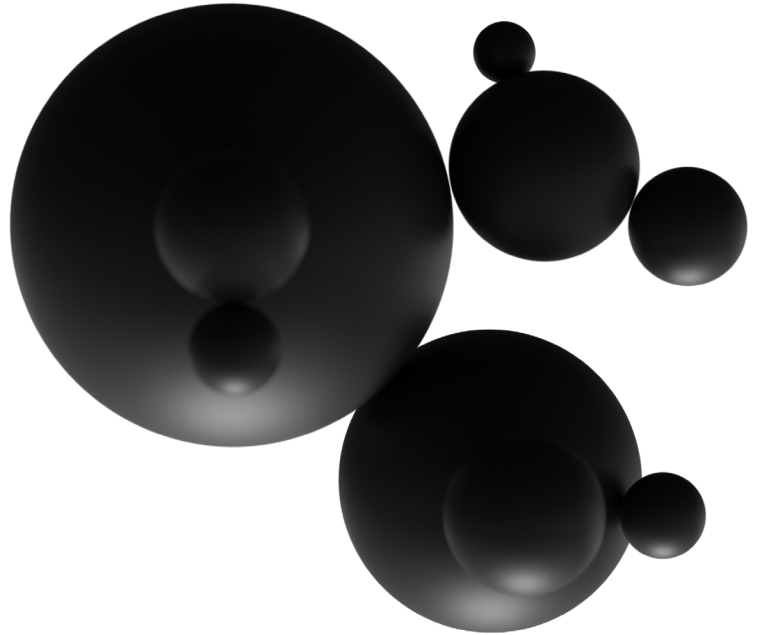
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An Introduction to SASACs

Anyone investigating China's state-owned enterprises (SOEs) will eventually [come across their primary owner](#), one of the State-owned Assets Supervision and Administration Commissions (SASAC). There are multiple commissions at every level of government in China, from the national level to the city district level, charged with managing SOEs.

SASACs' role in managing SOEs makes them significant players in the fastest growing emerging market. According to a [2006 assessment](#) by Boston Consulting Group, the national SASAC's controlled enterprises accounted for \$1.06 trillion in revenue, prompting them to dub the commission "the world's largest shareholder."

SASACs' financial footprints have grown significantly since then. In 2019, annual revenue of enterprises managed by the national level commission grew to [\\$9.5 trillion \(62.55 trillion RMB\)](#). Smaller, regional SASACs have a large cumulative impact on the nation's economy as well, pulling in an annual revenue of [\\$4.1 trillion \(26.65 trillion RMB\)](#) in the same year.

In spite of their intimidating scope, SASACs are highly transparent about their holdings and regularly publish reports on enterprises under their control. As government entities, SASACs have no shareholders and are instead managed through legally defined intra-governmental hierarchies. Examples of how to identify these key pieces of information from primary sources are included in this report.

This report will give you a foundational understanding of the role SASACs play within SOEs, how SASACs relate to other branches of government, and how to assess risk associated with SASACs.

Structure and Purpose of SASACs

SASACs exist to manage government assets, specifically SOEs, on behalf of the state.

Most literature on SASACs discusses the national commission – henceforth referred to as the national SASAC – to manage China's largest SOEs. In addition to the national SASAC there are numerous regional SASAC offices replicating the national level government's format and purpose.

Most regional SASACs manage enterprises on behalf of provincial or city governments, though there are occasions when other government entities have their own SASAC. For example, [the Xinjiang Production and Construction Corps and its 14 internal divisions](#) each have their own SASAC through which they own and manage enterprises.

SASACs both directly own entities as well as manage entities owned by the government they are attached to. In China, SOEs are legally recognized as corporate entities rather than government entities. They are managed by the government through a SASAC serving as either majority shareholder or acting on behalf of the government as majority shareholder.

The creation of the SASACs, both national and regional, are an evolutionary step in China's ongoing market reforms first initiated in the 1980s. SASACs step into a managerial role which was previously spread out amongst multiple ministries and agencies. By consolidating SOE management into a single commission, the national and regional governments are theoretically able to separate enterprises from government operations and transform them into more commercial corporations while still ensuring government will continue to play an important role in corporate governance.¹

While SOEs are legally recognized as corporations, they also fall under government management hierarchies which predate China's market reforms. The SASACs act as an intermediary between these two systems, [translating government policy into corporate governance via majority shareholder](#).²

¹ In practice, there are cases where SOEs maintain close interpersonal and political ties to the agencies or ministries from which they originated – which poses an ongoing challenge to SASAC management. Additionally, enterprises may maintain formalized management ties to Communist Party Committees associated with other branches of government. These relationships vary on a case by case basis and cannot be generalized nationwide.

For more information, please see: "We are the (National) Champions: Understanding the Mechanisms of State Capitalism in China," by Li-Wen Lin and Curtis Milhaupt, Stanford Law Review Vol. 65 Issue 4, May 2013.

The National SASAC: The World's Largest Shareholder

The national SASAC – known formally as the State-owned Assets Supervision and Administration Commission of the State Council – [was established in 2003 by the State Council](#), China's highest level governing body. The national SASAC manages SOEs owned by the national level government. These SOEs are legally categorized as central SOEs, the names of which are publicly listed by the national SASAC. The commission provides regular public announcements on central SOE status, including information on mergers and quarterly profit reports.

Prior to 2003, SOEs were created, owned and managed by different ministries. The national SASAC was [created to consolidate central government management of its existing SOEs](#). As of this writing, [there are 97 entities managed by the national SASAC](#). Corporate records show either the State Council or the national SASAC as being the primary shareholder of these enterprises. In 2008, the SASAC [was legally empowered to act as an investor in central SOEs](#) on behalf of the national government.

The national SASAC is also in charge of central SOE manager selection and compensation, a function which [is carried out in cooperation with the Chinese Communist Party](#). The involvement of the Chinese Communist Party in personnel management is universal throughout Chinese government institutions. The SASAC leadership itself is selected by the Chinese Communist Party.

A great deal of information about the national SASAC, including its leadership, enterprises, and profits, are publicly available. Entities managed by the national SASAC are listed and linked [on its website](#). Additionally, the commission issues quarterly reports on profits and revenue of its enterprises in aggregate, which are then made available both on the commission's website and printed in major newspapers.

² This rule of thumb is best applied to regional SASACs and with younger enterprises. There are significant exceptions to this rule among enterprises falling under the national SASAC's jurisdiction, where said enterprises qualify as higher ranking government institutions than their SASAC. While written policy dictates SASAC should act as majority stakeholder for these enterprises as well, the reality of uneven government rankings presents a challenge to SASAC management in practice.

For more information, please see: "We are the (National) Champions: Understanding the Mechanisms of State Capitalism in China," by Li-Wen Lin and Curtis Milhaupt, Stanford Law Review Vol. 65 Issue 4, May 2013..

Regional SASACs Number in the Thousands

After 2003, the national SASAC was replicated by lower levels of government to fulfill the same purpose – to act as shareholder and manager of SOEs on behalf of local governments. Every province in China has its own SASAC, and there are thousands of state-owned asset management entities at the city, town, and county level.

Notionally, regional SASACs fall under the jurisdiction of both their respective governments and the national level SASAC. In practice, SASACs primarily answer to their local governments and the associated Party Councils. As a result, commissions typically manage their SOEs in the interest of local government rather than as part of national strategy. This is known as “horizontal management” (*kuài*), [one of two primary management structures](#) within China’s Government.³

Personnel for regional SASACs are selected by the Chinese Communist Party Council one level of authority up along the horizontal chain of command. For example, a provincial SASAC’s personnel are selected by the Chinese Communist Party Council of the provincial government. Party Councils’ influence on intra-agency policy authority is equally true within all government agencies beyond SASACs. The agency affiliation of the party council with jurisdiction over personnel is the biggest determinant of horizontal versus vertical intra-agency management structures, since the authority to dictate policy direction is usually held by the party council due to their ability to hire or promote personnel.

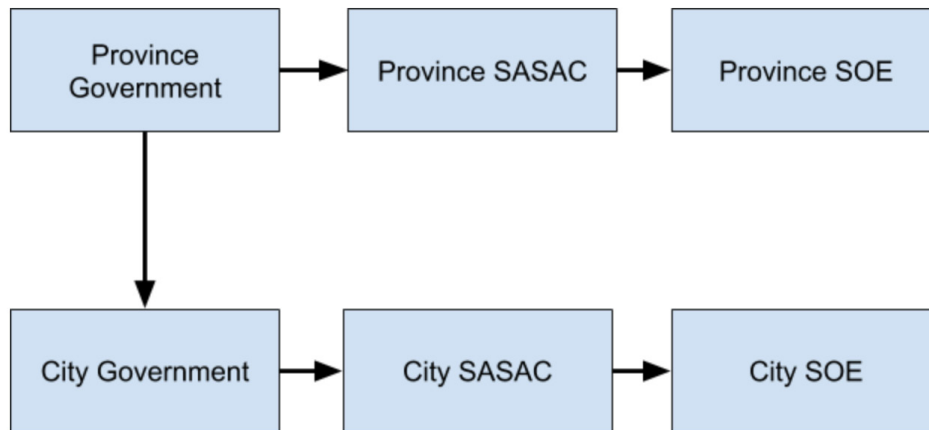


Fig. 1: Example of horizontal management for regional SASACs and SOEs. Governing authority is backed by an agency’s affiliated Chinese Communist Party Council’s power to appoint and promote personnel.

³ Under the alternative “vertical management” (*tiáo*), a regional agency or commission answers primarily to a national level government entity, and will act on behalf of national strategy rather than local policy interests.

Identifying a SASAC's obligations and affiliations can be easily verified through public documents and government websites. Regional SASACs are highly transparent about which SOEs fall under their jurisdiction and which government entities they are legally obligated to report to. To demonstrate, below is an example from the Hangzhou City SASAC website (Figures 2 and 3).



Fig. 2: Names of enterprises managed by the Hangzhou State-owned Assets Supervision and Administration Commission published on the Commission's website.



Fig. 3: The Hangzhou State-owned Assets Supervision and Advisory Commission's statement of purpose and institutional responsibilities, including the responsibility to respond to assignments from the Hangzhou City Government or Hangzhou City Party Council.

Assessing Risk Associated with SASACs

SASACs and the enterprises they manage are as varied as the government agencies they operate under. Nevertheless, there are a few universal aspects which can assist in investigations.

Since they are not corporate entities, SASACs have no shareholders to disclose. However no SASAC operates independently - they all act on behalf of another government office. Said office will be named in the SASAC's name making it easy to identify. Legal documentation describing the SASAC's obligations to other government offices is regularly made available online, provided the SASAC and associated government agency have the resources to create and regularly maintain a website.

When making risk assessments, if you find that a SASAC is a majority owner, you should assume the level of risk as if said entity was majority owned by the corresponding horizontal government entity. This is due to the corresponding government's legal relationship and ability to govern the SASAC.

If an entity is owned by a government office directly, it is likely managed by said government's SASAC. In-depth investigations of government owned enterprises not directly owned by SASAC should still include examination of the associated SASAC as the instrument used to carry out corporate governance.

Coming across a SASAC should not be a barrier to continuing investigations, but rather should open up a new avenue to explore public resources on enterprises and their management. While each commission operates within its own unique context, information on the role and history of the institution provides a foundation from which to seek out public information that may have otherwise been overlooked.

