

The Engine of Reform

An interview with **The Honorable Li Rongrong, Chairman, State-Owned Assets Supervision and Administration Commission of the State Council (SASAC), People's Republic of China**

EDITORS' NOTE *After graduating from Tianjin University with a bachelor's degree in electrochemical engineering, Li Rongrong served successively as worker, workshop chief, deputy director, and director of a factory. He was then appointed vice chairman of Wuxi Municipal Economic Commission, Jiangsu Province. Then he successively held the posts of director of Wuxi Municipal Light Industry Bureau, chairman of Wuxi Municipal Planning Commission, and vice chairman of Jiangsu Planning and Economic Commission. In February 2001, he was appointed chairman and party secretary of the State Economic and Trade Commission (SETC). At present, Li Rongrong is chairman of SASAC and party secretary of SASAC CPC Committee. He is a member of the 16th CPC Central Committee.*

INSTITUTION BRIEF *Authorized by the State Council in March 2003, in accordance with the Company Law of the People's Republic of China and other administrative regulations, the State-Owned Assets Supervision and Administration Commission of the State Council (SASAC) acts as an investor; guides and pushes forward the reform and restructuring of state-owned enterprises (SOEs); appoints and removes top executives of enterprises; evaluates their performances through legal procedures, granting rewards or inflicting punishments based on their performances; and directs and supervises the management of local state-owned assets according to law.*

Outsiders often regard your commission as one of the most important engines driving China's economic reform. Do you agree with this opinion?

Although the SASAC only supervises 169 SOEs, the taxes they turn in account for nearly one-fifth of the total revenues of the central government. In this sense, it is easy to understand the significance of the enterprises my commission supervises. Because of the significant role these SOEs play in China's national economy, the commission has, since its establishment, taken it as its primary task to administer

SOEs well. Only after we administer SOEs well can the national economy develop stably and continuously.

The improvement of quality shows mainly in the following three aspects: the power to control, the power to influence, and the power to drive. Through these three powers, we let the state-owned economy play its due role in the national economy. The power to control means we must have the controlling power over the industries that are vital to the nation; for instance, the aerospace industry and the war industry. The power to influence and the power to drive connote that the state-owned economy must be able to influence and drive the national economy. For example, the three gigantic oil enterprises, namely PetroChina, Sinopec, and CNOOC, have driven and influenced the development of the entire oil industry in China. My commission simply takes charge of the supervision and administration of the state-owned assets in these enterprises.

As the leading companies in China, will the SOEs undermine the free development of the market when they are exercising their power to control?

I was once asked whether there was a monopoly in the oil industry. And I think moderate competition, rather than full competition, is appropriate for industries that are vital to the national economy.

In 2005, the world oil price experienced large ups and downs, which exerted a big impact on many countries, while the Chinese economy felt only a minor impact and developed smoothly compared with those countries. The three leading oil enterprises contributed greatly in this regard. They tried hard to digest the oil price difference between purchase and sale within their bodies, at the cost of their own interests, and played their due role in promoting the smooth development of the national economy. Ensuring the stable and continuous development of the national economy is the core connotation of "administer SOEs well."

Besides the responsibility that you mentioned just now, another important task of your commission is to

keep or increase the value of China's state-owned assets. What are the challenges your commission faces in this respect?

To tell the truth, the problem of loss of state-owned assets does exist. However, it only exists in individual cases. We need to look at the issue from a general perspective and check two indexes: the total amount of state-owned assets and their quality.

Our work performance since the establishment of the commission in March 2003 has so far been satisfactory, and we have achieved sound results. In 2003, when I took over the position of chairman of the commission, the total assets of SOEs were RMB7.1 trillion [\$0.9 trillion], and the number jumped to RMB10.6 trillion [\$1.3 trillion] at the end of 2005, with an annual increase of RMB1 trillion. The total sales of the SOEs reached RMB6.7 trillion [\$0.8 trillion] in 2005, with an average increase of RMB1.1 trillion per year. And these enterprises accomplished profits of as high as RMB630 billion [about \$79 billion] in 2005, increasing more than RMB100 billion per year on average. Tax is the major index for the government to judge whether a company is performing well. The SOEs paid taxes of more than RMB540 billion [\$68 billion] in 2005, with an average annual increase of RMB100 billion. All these performances are better than what we expected. I would say that the good results we have achieved in these three years are the best answer to your question.

China's reform of SOEs has taken more than 20 years, from relaxing control over them and leaving them more profits for their own development to transforming them to joint stock companies. How has the SASAC, as the major investor in the SOEs, helped them to establish a modern enterprise system and gradually perfect the corporation management structure?

Before the establishment of the SASAC, it was hard to find a particular body directly responsible for the state-owned assets in SOEs, although it was said that the government should take responsibility. Therefore, our task is clear, which is to

shoulder responsibility for these state-owned assets. The first step we took to define this responsibility was to formulate and sign the Operation Performance Responsibility Contract. All issues concerning keeping and increasing state-owned assets and how to deal with profits and losses are defined in the Operation Performance Responsibility Contract, and are to be implemented by leaders of the enterprises with full authority.

The general manager is to take direct responsibility for the performance of the enterprise. For those enterprises registered according to the Law of Corporation, the board of directors will be responsible for choosing a general manager. The commission's work, in the first phase, is to guide the enterprises to develop according to the Law of Corporation, step by step, while, in the second phase, we will establish a standard corporation management structure and a mutual check-and-balance management system to ensure the sustained development of the enterprise.

Most SOEs are registered under the Law of Corporation and the general manager is supposed to take direct responsibility for the performance of the company. However, for some of these companies, although they have a management system constituted by a board of directors, a general manager, and a Party committee, they actually refer to the same group of people, so when they hold a meeting, it is really hard to tell whether the meeting is convened by the general manager or the board. In this sense, responsibility is unclearly defined, so the performance of the company is worse than expected.

For this reason, we are now trying to pilot reform in this respect. We selected six SOEs as key companies to adopt the standard corporation management structure, such as Bao Steel, Shenhua Group, etc. We set quite a high requirement as our starting point, which was that the majority of the newly established directors had to come from outside the company. In some large-scale SOEs, of the nine directors on the board, five are from outside the company. The objective of doing so is to make sure that the decision making of the company is not fully subject to people within the company, and to prevent administrative intervention from the government, thus ensuring that every director on the board can voice his or her own opinion independently.

Compared with their foreign counterparts, the development of Chinese political and corporate leaders seems more closely connected to the times in which they grew up. All of your past positions were related to the planned economy, and against this background, you assumed your current position as chairman of the SASAC. How has your role changed, and how do these changes reflect the changes

taking place in Chinese society?

The most fundamental change that Chinese society has undergone in the last two decades is the transformation from a planned economy to a market economy. I formed my deepest understanding about this change when I was working in a grass-roots firm. That firm specialized in manufacturing accessories for agricultural machines. In the planned economy, all our products were purchased by the state, so we did not have to consider sales and marketing. Then along came the market economy, and we suffered the first strike. The government did not help us anymore, so we had to work things out by ourselves. As for such matters as a feasibility study for a project or the evaluation of economic



Elizabeth H. Yang, China Chief Representative, LEADERS Magazine, interviews Li Rongrong

returns, the company had to do them and be responsible for itself. The government only needed to investigate whether the project complied with its policies.

I think our enterprises shouldn't rely on the government, but should courageously explore the market by themselves. The government should respect decisions the enterprises have made according to the rules of the market economy. He who invests, decides. Now that my commission is indeed an investor, we surely need to take our due responsibilities. The definitions of the role played by the government and the role played by enterprises must be clear, and we must agree about what the government should do and what enterprises should do. The government is not good at everything.

Many people describe you as the principal person determining the development trend of Chinese SOEs, which gives people the impression that you are like a strict father. In the eyes of the leaders of the enterprises your commission administers, would you prefer to be "most favored" or "most feared"? How do you define yourself?

To my subordinates, I need to be "most favored" and "most feared" at the same time. I think work is work, and private relations are private relations. The two can-

not be mixed. I am serious in work and will raise clear work requirements to my subordinates, which allow no watered-down versions. On the other hand, if someone has family difficulties, I will try my best to help him or her. At that time, I would be the first person to come to his or her mind. I think that in this way I treat my subordinates like an affectionate father would.

More importantly, I am chairman of the commission. When I make my assessment of whether the leaders of the SOEs are performing well, I also hope they can make their evaluation of whether or not I am doing a good job. The 169 SOEs under the supervision and administration of my commission fall into a wide range of industries; moreover, global competition

has become very fierce. So, I often feel my knowledge renewal cannot keep up with the latest developments, and that I have far less time than I need. Although I don't have to worry about those enterprises that are running well, I do need to deal with the others that are running poorly. Just imagine a company has gone bankrupt but its employees still need to be fed. You would be very worried about the situation. If two companies were worrying you at the same time, how could you concentrate on both? Every time I am in this situation, I feel short of knowledge and in great need of time to learn.

The leader is the soul of a group. Executing power is a representation of the leader's responsibility, and will eventually evolve into the competitive power of the enterprise. LEADERS is actively engaging in an evaluation of Chinese corporate leaders' power. How do you regard leadership, and what do you think are the core factors that constitute a leader's power?

Generally speaking, leadership is the ability to lead an enterprise to make a quick response to the environment. When a certain change takes place in the market, a good leader should be able to make an apt response to it, to find out the potential opportunity in it quickly, and to lead his or her team to catch this opportu-

nity. A good leader should be good at establishing a quick and apt market response system, in which the leader's insight and power to influence is crucial.

Therefore, work devoted to establishing such a market response system starts with choosing the right people and forming the right team. The superior is sensitive and responsive to changes, while the inferior can promptly understand and implement the superior's instructions. Every team member performs well in his or her position, and, in the meantime, quickly sends the information to the grassroots. In this way, all team members pull together. If we are one second faster in every link of the chain, we will win. ●