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China's State-owned Enterprises: Nature, Performance and Reform. By HONG SHENG and NONG ZHAO. Singapore: World Scientific Publishing Company, 2013. xxxiii, 372pp. $89.00 (Hardcover); $89.99 on itunes.

This book has a mission: to show that a second revolution in state-owned enterprise (SOE) reform is urgently needed. To that end, the authors muster all the firepower they can. The most compelling (and most prominently presented) two arguments are that (i) once one adjusts SOE profits for all the indirect subsidies SOEs enjoy, SOEs are a consistently loss-making bunch, and (ii) once one properly accounts for the distribution of SOE value-added, the large-scale plundering of SOEs by managers and employees becomes apparent.

Both authors are affiliated with the "Unirule Institute of Economics" (*Tianze jingji yanjiusuo*)—an "Independent Think Tank" its website says—and the book is the outcome of a project undertaken by a "task group" that also includes Yang Junfeng, Qian Pu, Guan Jianqiang, and Yang Xiaojing. The task group looked for (and provides) answers to three questions: (1) What is the current performance of the SOEs? (2) From a normative point of view, what kinds of institutions should SOEs become? And (3) How should the reform of SOEs be carried out?

Following a four-page introduction that can easily serve as executive summary, the book, in ten chapters, provides an overview of past SOE reforms, classifies state ownership, evaluates the "efficiency" (meaning profitability) of SOEs, evaluates distribution in SOEs, elaborates on the recent spate of "state advance and private retreat" (*guojin mintui*), evaluates the macroeconomic impact of SOEs, examines SOEs from three distinct perspectives (political, economic, and legal), and presents a future reform plan. Four appendices provide "sub-reports" on the mission of SOEs, the conflict between the mandate of the State Asset Supervision and Administration Commission (SASAC) and its actual role, background calculations on land rent, and the evolution in nine specific sets of SOE-related policies.

The book packs quite a punch, leaving no stone unturned in trying to reveal just how far-reaching the (negative) implications of SOEs are. At the core of the book are the evaluation of efficiency and distribution, focusing on the industrial sector for which the necessary data are available or can be pieced together. The authors argue that SOEs do not pay (i) market rents on industrial land (let alone on land that SOEs transferred into commercial use), (ii) sufficient royalties to the government for mineral resources (specifically oil, natural gas, and coal), and (iii) market interest rates on funds. At the same time, SOEs receive government subsidies. The authors then proceed to impute market rents on industrial land, royalties at international levels, and interest payments at market rates. They subtract these together with the subsidies from SOEs' reported profit to arrive at *negative* "real" net profit for 2001 through 2005 and 2008 and 2009 (with a small positive profit remaining in 2006 and 2007). In the subsequent chapter the authors examine who received the value-added created in SOEs and point squarely at managers and employees, with the official wage data being farcically inadequate at measuring actual incomes; they then describe the various venues for (extra-wage) enrichment by management and employees.

Many passages impress with their thoroughness. For example, the overview of past SOE reforms in the first chapter is meticulous, the brief chapter presenting an economic perspective of the nature of SOEs reveals a careful understanding of the potential role of SOEs, and the chapter on *guojin mintui* shows that despite the decline of the share of SOEs in industrial output in the aggregate, the government has nationalized (in rather brutal fashion) private enterprises in several specific sectors and instances. The final chapter on continued SOE reform presents a convincing list of detailed, argued recommendations for short-term and (separately) for long-term reform (3-5 years, and 5-10 years). The long-term solution, perhaps not astonishingly, involves withdrawal of the SOEs from competitive sectors and the transformation of the remaining SOEs into non-profit public enterprises, establishment of a constitutional governance framework for state-owned assets, the transition from a revenue-oriented government to a service-oriented government, and the transformation of SASAC into solely a regulatory agency.

It is one thing to show that the system of SOEs is deficient, but another to show that there is something "better." The argument for the system that is better is never made. From a fact such as that private enterprises in China in the years under examination have a higher profit rate than the "real" profit rate of SOEs does not follow that a Chinese economy based purely on private enterprises is preferable.

While the book shines in ideas and arguments—all to the detriment of China's current system of SOEs—it falls short in editing and language. It appears as if many pieces have been aggregated into a book with scant respect for the reader. For example, the first two-thirds of the first chapter on past SOE reforms present a superb overview, only to be followed in the remainder of the chapter by what seems a list of titles of regulations embellished with some text, covering the same ground. The longest chapter runs to 45 pages, the shortest to 6.

For an academic, the book is a rough read. An argument about "economic fragility" fails to be argued and one is left wondering how the authors move from an equation (which is perfectly comprehensible) to the interpretation of the equation as a measure of "economic fragility" and then to their interpretation of SOEs as contributing to economic fragility. In some places, the authors draw conclusions from pieces taken from the literature. In several instances, they refer to other reports by the Unirule Institute. Many of the abbreviated references given in the text do not appear in the reference list. (Some of the abbreviated references in the text may refer to internal literature that is not publicly available.) None of the *regulations* cited in the text appears in the reference list. The reference list is exclusively in English, even though the majority of the sources are likely to be in Chinese, making it hard if not impossible to locate a copy of the publication.

The book appears a translation of a report published in Chinese and much may be lost in translation. Try making sense of a sentence like "From 2001 to 2008, the 'Wages' other than the wages accounted for about 153% of 'gross wages'" (p. 99). Language is a major issue throughout, preventing a concise reading of the text. A pinyin version of the original term in parentheses is much desired in many places, but never offered.

Given that the book is a difficult read both in terms of editing/presentation and language, it may not find favor with a large audience. That is a pity for it is full of good ideas and many passages of compelling presentation. A China researcher will be interested in the overall argument of the authors and will find numerous jewels buried throughout, including in the "sub-reports" at the end of the book, such as on manager compensation in SOEs. The introduction and the first two-thirds of the first chapter on SOE reform have a place in every Chinese economy course. For others, the best choice may be to start with the introduction followed by selective reading according to personal interests.

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