An Analysis of the Possibility of Implementing the Golden Share System in China - Based on the Changchun Biological Event

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***Abstract*—**The report to the 19th National Congress of the Communist Party of China clearly stated that it is necessary to “improve the management system for various types of state-owned assets, reform the system for authorized operation of state-owned capital, accelerate the optimization, structural adjustment and strategic reorganization of the distribution of the state-owned economy, promote the preservation and appreciation of state-owned assets, make state-owned capital stronger, better and bigger, and effectively prevent the loss of state-owned assets.” In September 2015, the Central Committee of the Communist Party of China (CPC) and the State Council issued the Guiding Opinions on Deepening the Reform of State-owned Enterprises (SOEs), which proposed to “allow the conversion of part of state-owned capital into preferred shares and explore the establishment of a system of special state management shares in a few specific areas”. In this context, the “golden share” system can serve as the “national special management share system” and become an important breakthrough to promote the reform of state-owned assets and state-owned enterprises. This paper introduces the development of the golden share system in Europe, analyzes the possibility of implementing the golden share system in China based on the Changchun biological event, and puts forward some suggestions for the reform of state-owned enterprises.

Keywords*—Gold Shares; Reform Of State-Owned Enterprises; Changchun Biological*

I. INTRODUCTION

A. Definition of the Concept of Gold Shares

“Golden share” system (hereinafter referred to as the “golden shares”) is mainly refers to in the process of marketization of state-owned holding company, the government keep hold a special (or minority), and give it a special (or minority) special power, this privilege shares beyond the rules of the “one share one vote”, gives the government within a certain period of time to vote for the specific matters. The privilege was called a “golden share” because of its “golden value”. Holders of "golden shares" do not have the voting rights of ordinary shares, and generally do not have the right to profit from the shares. However, the most important special power is the “veto power” to control the major business decisions of the company. Even if the shareholders’ meeting votes on a major matter, the holders of “golden shares” can still veto the matter[1].

In essence, the “golden shares” is in the process of soe reform, the government and the market investors achieve the specific contract, the government and the market investors appropriate exchange ownership and management rights and voting rights specific items, the government will the ownership and management of the state-owned enterprises to market investors, at the same time, the market investors to the assignment of the decision on major issues of the state-owned enterprises in particular to the government, Even if all the shares of state-owned enterprises are transferred to the market investors, the government can still realize temporary or permanent constraints on the market investors in certain major matters and exercise veto power over the market investors’ acquisition of corresponding interests.

B. The Origin of Gold Shares

The “denationalization” of the steel industry by the Church government in Britain in the 1950s can be described as the first privatisation. In 1979, privatization was implemented as a core political and economic policy in Britain. The “golden share” was first used in 1980 in the UK, where the government wanted to retain influence over the privatised British oil company Britoil. Subsequently, British Telecom successfully issued its shares in 1984, which was the first time in the world to privatize state-owned assets through listing. In 1993, the Railways Bill was passed by the British Government to privatise British Rail into 100 small enterprises which, with the permission of the British Rail Authority, entered into exclusivity agreements with the Department for Transport[2].

C. The Form of Gold Shares

The specific forms of golden shares set up in the restructuring of state-owned enterprises in various countries are different. There are mainly the following forms, which are used separately or simultaneously. First, the government enjoys absolute veto power over the amendment of the articles of association of the restructured enterprises. When a restructured enterprise amends its articles of association again, it shall obtain the approval of the government. Second, the government has absolute voting rights on major management matters of the restructured enterprises. Major management matters, such as the appointment of senior management personnel, the adjustment of major business strategies, and the disposal of important assets, must be approved by the government. Third, the government has absolute control over the ownership change of the restructured enterprises. The former state-owned enterprises that have been restructured and privatized must obtain the approval of the government when they merge or split up[3]. The government can use golden shares to exercise veto power over the merger or division of the restructured enterprise.

II. THE POSITIVE SIGNIFICANCE OF THE GOLDEN SHARE SYSTEM IN OUR COUNTRY

First of all, the resistance of enterprise reform can be reduced on the basis of the guarantee of control by golden shares, and the state can control the economic main body with a small amount of equity. Secondly, enterprises can operate in accordance with the market mechanism to improve efficiency and benefits, and the state can enjoy dividends and benefits, as well as the control right at critical moments. Thirdly, the exit mechanism is flexible, so the state can withdraw at any time according to its needs. At present, China's economic system reform is in the crucial stage, the deep contradiction is difficult to eliminate, to maintain the social political and economic stability, gold stocks give special government control, in major economic issues, control of the government will not weaken, at the same time can through the introduction of social capital and new competition main body to promote economic efficiency and efficiency, Gold shares can play an important role in this[4].

III. PROBLEMS THAT MAY EXIST IN THE PROMOTION OF GOLDEN SHARE SYSTEM IN CHINA

Our country has carried on the pilot reform to the golden share system, but the effect is not very ideal. The following problems may exist in the application of the golden share system in China:

A. The Abuse of the Special Rights of Golden Shares may affect the Normal Operation of the Restructured Enterprises

Government is the holder of gold shares, has a large special rights, but it is not direct operators of restructured enterprises, also lack of accurate grasp of market economy, the special rights abuse may affect the normal operation of the restructuring of enterprises, thus unable to obtain the best economic benefit, even lead to paralysis of the entire company.

B. The Exercise of the Special Rights on Golden Shares may Impede the Free Flow of Capital

In a single market, capital should be allowed to move freely within it so that it can be used where it is most efficient and allocated optimally. The special rights of golden shares may be used by local governments to maliciously exclude foreign investors, restrict the free flow of capital, and form a new form of administrative monopoly, which is more difficult to be regulated by the Anti-Monopoly Law.

C. The Exercise of the Special Rights of Golden Shares may become a Rent-seeking Tool for Government Officials

The essence of golden shares is a kind of public power, a form of government power expansion, which is directly manifested as the expansion of government officials' power. According to China's tradition, the administrative power is extremely powerful, and China's market economy is born out of the planned economy, so the government has an almost innate impulse to intervene in the market. Once this impulse is turned into reality without restriction, the allocation mechanism of resources may be artificially distorted, seriously affecting the normal operation of the market. It facilitates rent-seeking by officials and sows evil seeds for possible future corruption[5].

D. The Golden Share System may Constitute a New Barrier to Economic Globalization

Under the golden share system, the rejection of a merger is done as a holder of golden shares, and the government can act "nongovernmental" to keep itself out of the way. Even for the international trade in goods, the holders of gold shares can carry out discriminatory intervention with the confirmation right of gold shares, which makes the short-sighted behavior of "beggar-thy-neighbor" prevalent and constitutes the new invisible trade barrier of economic globalization.

IV. DISCUSSION ON THE APPLICATION OF THE GOLDEN SHARE SYSTEM IN CHINA -- BASED ON THE CHANGCHUN BIOLOGICAL EVENT

Changchun Changsheng, which grew out of a stable, profitable, high-quality public company, also has no record of producing fake vaccines. Before 2003, Changchun Changsheng was the core subsidiary of Changchun Hi-tech Industry (Group) Co., Ltd., which contributed tens of millions of profits to it. Such a public enterprise with excellent performance and stable profits was sold by Changchun Gaoxin on December 16, 2003 in the name of strategic adjustment of state-owned assets and development of mixed ownership reform. The 59.68% equity of Changchun Changsheng (29.84 million shares) held by Changchun Gaoxin was completely transferred at the transfer price of 2.4 yuan per share. The transfer object is Jilin Yatai (Group) Co., Ltd., receiving 12.5 million shares, accounting for 25% of the total share capital, and the transfer amount is 30 million yuan. The other party was Gao Junfang, the director and vice chairman of Changchun Changxin at the time, who transferred 17.34 million shares, accounting for 34.68% of the total share capital, and the transfer amount was 41.616 million yuan. However, such a state-owned enterprise with excellent profitability was sold at such a low price, which aroused public doubts. Even a biological company proposed to Jilin Provincial Government to buy all the shares of Changchun Changsheng at the price of 3 yuan per share, but failed. In the end, Changchun Gaoxin raised the sale price to 2.7 yuan per share amid doubts, and eventually sold it to Jilin Yatai and Gao Junfang. In 2006, Jilin Yatai transferred all its shares in Changchun Changsheng to Gao Junfang. At this point, Changchun Changsheng completely by the public enterprises into private holding private enterprises.

In view of this fake vaccine incident, we should reflect on why the public enterprises turned into private enterprises to fall into illegal enterprises to make maternity leave vaccines. The following are some thoughts on the reform of state-owned enterprises in China.

A. We must Attach Great Importance to and Resume Prior Supervision

The government should not only focus on the supervision in and after the event of the vaccine production enterprises, but the supervision in advance is particularly necessary. However, in reality, some pharmaceutical interest groups have obstructed the implementation of the government's prior supervision layer by layer, deliberately reducing the rich content of the government's prior supervision to reduce the approval, so as to give up the prior supervision. It often leads to poor drug and food safety, Tianjin chemical explosion, stock market disorder, labor conflict, P2P network lending platform collapse and other negative consequences of the society.

B. We will Ensure that Public Capital Holds Absolute Shares in the Reform and Development of Mixed Ownership

According to the requirements put forward at the Third Plenary Session of the 18th CPC Central Committee, the purpose of developing mixed ownership is to promote the amplification function of public capital, maintain and increase value, improve competitiveness, etc. Therefore, the development direction of mixed ownership is to strengthen public capital rather than change public capital holding into private capital holding through "mixed reform".

After Changchun Changsheng changed from a public capital holding company to a private capital holding company, it embarked on the road of vaccine fraud. The reason lies in the fact that privately-held enterprises pursue private interests, ignoring national laws and people's health and turning public enterprises into tools for private profit. In addition to the medical field, in areas related to the national economy and people's livelihood, such as food, pension, education and other fields, if the public capital is allowed to give up the controlling position, let the privatization wave under the banner of mixed ownership reform, similar to the Changchun Changsheng fake vaccine cases will emerge one after another.

In the process of privatization, the golden share system is used to solve the problem that the government is out of control of the private enterprise. There is a breakthrough in the traditional concept that only by holding advantageous shares in the enterprise can the operation and management activities of the enterprise be guaranteed without violating the overall interests of the country. Golden shares don't represent any economic value, but they give the government important rights, such as veto power over major corporate decisions. This special equity arrangement is also a breakthrough to the traditional rights of shareholders[6].

C. The Use of "Golden Share" System can Effectively Promote the Mixed Ownership Reform of Domestic SOEs

1. The "golden share" system has a policy basis

In September 2015, the Central Committee of the Communist Party of China and the State Council issued the Guiding Opinions on Deepening the Reform of State-owned Enterprises, which clearly stated that "it is allowed to transform part of state-owned capital into preferred shares and explore the establishment of a system of special state management shares in a few specific areas", laying a good policy environment for exploring the "golden share" system.

2. The "golden share" system can eliminate the government's "fear of retreat"

Historical experience shows that when the government has only a minority share, it is difficult to restrain the behavior of private capital to pursue short-term interests and damage the national and public interests. Therefore, at the present stage, if the government cannot maintain the control of the enterprise, the government is not willing to exit or partially exit the state-owned enterprises. Through the "golden share" system, on the premise of guaranteeing the public interest represented by the government, the government can reduce the proportion of state-owned shares[7].

3. The "golden share" system can eliminate private capital's "fear to enter" and its concern to participate in the mixed-ownership reform

By setting the "golden share" system, the government only holding a symbolic 1 "golden share", only has a veto on the great items of the specific, private capital makes enterprise day-to-day operations can eliminate worries of private capital into state-owned enterprises, to encourage and attract private capital to participate in the enthusiasm of the reform of state-owned enterprises.

4. The reform of the "golden share" system is conducive to safeguarding the national interests

Not all the privatization of state-owned enterprises must set up the "golden share" clause. In fact, the scope of application of golden share is limited and should be strictly controlled. The establishment of the golden share system is essentially to provide a basis for the government to intervene in the specific major decisions of the enterprise within a certain period of time after the government exits the enterprise. The government set up a "golden shares" control after the privatization of enterprises, the purpose to protect the interests of the state, telecommunications, banking, electricity, petrochemical, postal, urban public transport, food, medicine, in areas such as state-owned enterprises had a huge impact on public interests, the government can be set by gold stocks guarantee these public properties after the state-owned enterprise restructuring. In addition, the establishment of golden shares in the restructuring of state-owned enterprises related to national security enables the government to enjoy control over the restructured enterprises, which can play a role in safeguarding national security[8].

CONCLUSION

The golden share system has been used for more than 20 years in foreign countries, and its development is relatively mature. However, it has only been introduced in China for about 7 years. As a new equity system, the golden share system has unique advantages such as expanding the dominant position of public ownership, establishing modern property rights system and coordinating the interests of all parties. If it can be further promoted in the specific fields of our country, the form of special rights can be limited to a certain extent, and the establishment of a perfect relief mechanism after the event, it can not only provide a new way of thinking for the reform of state-owned enterprises' shareholding system, but also provide a guarantee for the maintenance of national economic security. Therefore, the golden share system will provide a new mode of shareholding structure reform for China's state-owned enterprises, which has a good and very broad space for development.

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