
GOLDEN SHARES: THE GOVERNMENT'S ROLE IN CHINESE COMPANIES

Liqian Ren – Director of Modern Alpha
05/02/2023

The History of Golden Shares, from European Privatization to Chinese Use

[Golden shares](#), which give the holder 1% of equity and one board seat, have recently been used by the Chinese government to maintain control of certain private enterprises.

Although most of the reported cases of golden shares are concentrated in media companies, it's important to understand China's economy and the government's method of control to fully grasp their significance.

In this article, we'll explore the history of golden shares, their current use in China and which sectors the government is likely to continue to exert control over.

The concept of golden shares was first introduced in the UK in 1981 to privatize state-owned telecommunications companies.

It was later used extensively by other European countries to transition from state-owned companies to a more private role.

China saw this as a successful example of reducing state ownership and interference in companies' operations while maintaining some state control.

Current Landscape of Golden Shares in China

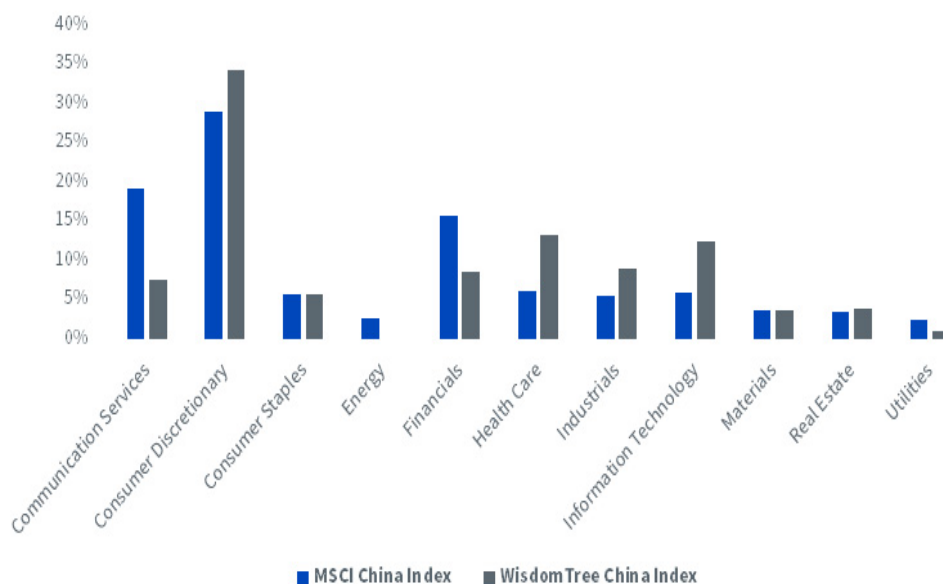
All known cases of golden shares in China are in new media companies, such as video streaming subsidiaries of ByteDance, the parent company of TikTok. They are also in small subsidiaries rather than the parent company, which is a common misunderstanding. There's no systematic database to identify which companies' subsidiaries have golden shares, but they are not as widespread as some reports suggest. For now, equity ownership remains China's main method of state control.

Energy, Finance and Media Are Sectors in which the Chinese Government will Continue to Exert Significant State Control

Energy and Finance are sectors dominated by state-owned companies, while media companies are always state-owned and mostly not publicly listed as long as the Communist Party is in power.

However, the rise of tech has given rise to wholly private media companies like Tencent, Baidu, ByteDance and Kuaishou that present a challenge to the government's control. To exert some control over these companies, the Chinese government could take significant equity or use golden shares.

Sector Weight



Source: WisdomTree, as of 2/28/23.

In summary, golden shares are a lighter tool of state control than significant equity ownership, mainly used for new media companies.

They do have some influence, but the worries that they will lead to significant operational control loss are overblown. For now, they are not the dominant form of state control, but if China were to privatize state-owned enterprises, they could be incorporated as a systematic decision variable.

For more insights on the latest investing risks and opportunities in China, check out our [China of Tomorrow podcast series](#).

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

View the online version of this article [here](#).

IMPORTANT INFORMATION

U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an “as is” basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the “MSCI Parties”) expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages (www.msci.com)

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only. You cannot invest directly in an index.

DEFINITIONS

golden share: A type of share that gives its shareholder veto power over changes to the company's charter.