

Zombie companies: Ending drag on global economy now vital

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Abstracts

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SUMMARY

Over the past decade the number of zombie companies - generally recognized as enterprises unable to pay interest on debts and being over 10 years old - has soared. Now they represent a serious problem to the global economy. A problem seemingly devoid of easy solutions, closing zombies and allowing more profitable and vibrant firms to fill the resultant gap demands widespread reform.

Traditionally associated with Chinese state-backed firms flushed with cheap credit and guaranteed contracts, the problem extends around the world and would be a serious danger in the event of another recession. Were the number of zombies to be reduced to a more sustainable level barriers to reinvigorating the global economy would reduce in size.

KEY HIGHLIGHTS

Now the prevalence of zombie companies is exerting strain; the wider economic impact could have global ramifications. Estimates vary how many zombie companies are present in China, but the issues faced by central and regional governments now pose serious threats to sustainable growth regardless of what the true number may be.

Creating zombies is part of normal economic activity but what marks out recent times from history is that existing zombies are not dying as they once did,

meaning any new zombies are added to the group of companies only surviving through the goodwill of banks, creditors and governments.

Zombie companies inflict widespread damage to entire economies because the amount of capital invested into them is unproductive compared to that risked against the success of profitable firms. Raising barriers against the growth of smaller, nimbler players not only harms growth but dynamism inside a market or industry.

SCOPE

Examines the extent of the zombie company problem.

Looks at what can be done about the prevalence of such companies.

Assesses the influence of the Chinese state on the problem via SOEs.

Scrutinizes some of the leading causes of zombies.

Looks at the problems the wider economy faces due to zombies.

REASONS TO BUY

What damage do zombie companies inflict on economies?

How bad is the problem?

What can be done about zombie firms?

Is China the worst offender?

Should zombie firms just be allowed to die?

Contents

Overview

Catalyst

Summary

Chinese zombie company problem is serious economic threat

Zombie state-owned-enterprises have long been a damaging economic feature in China

Zombie SOEs threaten to drag down economy amid worsening global outlook

Beijing is attempting to reduce the number of zombies - doing so without incurring extensive economic damage will be tough

Solutions to Chinese zombie problem are all hard but Beijing must pick one

Biggest risk of zombies is damage to smaller companies that should be replacing them

Globally, solutions to stop zombies are forming

Europe must do everything possible to end zombie companies to avoid damaging consequences

China is changing laws and law enforcement to reduce zombie numbers

Changing how banks deal with zombies will ease global problem

Zombies damage wider economic performance

Prevalence of zombie companies raises barriers to global economic vitality

New entrants face unnecessary barriers to success thanks to zombies

Conclusions

Solving zombie company problem is far from easy but absolutely necessary for the global economy

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