The Chinese state is essentially the Chinese Communist Party. Given the colossal size of the country and the economy, the transition, liberalisation and reforms underway since 1978, it is not easy to ascertain the extent to which the state (CCP) keeps its finger on the pulse of the economy and society. This is partly due to inconsistencies in statistical procedures. For example, the fact that the Chinese Federation of Industry and Commerce (ACFIC) defines ‘private’ mining companies (which account for the majority of mining corporations) as ones in which there is no public shareholding. This means that they include cooperatives as well. However, according to data from the National Statistics Office the ‘public sector’ covers both state and cooperatively (collectively) owned enterprises.¹

Company reform was introduced in the middle of the 1990s and was approved by the Congress of the CCP in 1997. This reform rested on two pillars. The first permitted state-owned companies to become joint-stock companies, sell their shares and establish other joint-stock companies. This is when the company forms were established that were contained in the 1994 Decree on the State Council. The second pillar was the so-called ‘zhuada fangxiao’ strategy (‘keep the big one, let the small one go’), which revolved around developing and strongly supporting a few large state conglomerates whilst leaving the small ones ‘to their own devices’.

As part of the reform the decree issued by the State Council in 1994 enabled the following 5 types of companies to be registered at the central or local government authorities: joint-stock companies; enterprises established with investment approved by the State Council (companies); limited liability companies established by foreign investors; other companies registered by the State Council for Industry and Trade (other companies). Furthermore, the Chinese statistical office lists several types of business unit and enterprise forms, but private enterprises are listed separately. (Table 1) The statistical office testified to 44.7 million business units in 2008. (Table 2) According to the report the number of corporations has risen 52.6% (to almost 5 million) since 2004. The number of public-sector companies and cooperatives has dropped sharply (mostly due to mergers and the ‘zhuada fangxiao’ policy, while the number of private companies is on the rise. 72.5% of all businesses were in private hands. In addition there were 15.96 million ‘legal units’ or ‘establishments’, 28.7 million self-employed units with licences (i.e. sole traders, micro enterprises), 102,000 foreign business

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¹ Annamária Artner, CSc, senior research fellow (Institute for World Economics of the Hungarian Economy of Sciences)
units and 84,000 set up by funds from Hong Kong, Macau and Taiwan. Of course, the number of companies and various business units obviously does not reflect their economic significance since the various types of state, cooperative and collective companies are generally much larger than private businesses.

**Declining Influence of Public Sector?**

Only in 2005 did the Chinese government give the private sector the same rights as public companies as regards entering markets, project access, taxation, land use, foreign trade, etc. However, the importance of the private sector is growing rapidly – which is not thanks to foreign capital but to state policy (successful battle against poverty, easier access to credits, facilitating effect of state investments, etc.) and to domestic savings. Day by day an increasing number of companies generate annual sales revenue of more than CNY 5 million, and thus become part of the statistics. Venture capitalists start to show an interest from 100 million yuan.

Due to the series of market reforms there is a growing impression that the private sector is slowly taking over the lead role in the Chinese economy. But is that really the case?

According to calculations of Li Chengshui, former head of the Chinese Statistical Office, published in October 2006 the public sector accounts for just 32% of industry and services employment and only 37% of GDP. This constitutes a sharp decline on 1995, when the state made up 78% of GDP. Endeavouring to eliminate overlaps in the statistics, Li concluded that between 1995 and 2005 the number of private firms increased 6½ fold (from 660,000 to 4.3 million), while the numbers they employed rose more than 5½ fold (from 8.2 million to 47.1 million). At the same time their total capital rose 26-fold, reaching CNY 6,133.1 billion (roughly USD 830 billion). In 2000 private capital accounted for 55% of GDP (of which 42.4 percentage points came from Chinese private mining companies and 12.6 percentage points from foreign capital). In 2005, however, it totalled 65% (50 and 16 percentage points from Chinese private mining companies and foreign capital respectively). According to other calculations the weight of private capital in GDP amounted to 63% in 2006. Here we should note that the classification of mining cooperatives is distorting because they are assigned to the private sector in statistics, though the cooperative is a form of public ownership. And as we see, mining plays an extremely important role as part of the ‘private’ sector. This factor must be taken into account when evaluating the following data.

According to the calculations of statistician Li, registered capital in 2001 was split between the public and private sectors in a 2/3 : 1/3 ratio, but by 2004 this had changed to 56:44. And the significance of the private sector has continued to grow since.

The decline of the public sector has been noted by as well: 49.6% of industrial output in 1998 came from companies fully or partially owned by the state, a figure that had fallen to 38% by 2004. In 2004, central government employed 23.7% of the total headcount at state-controlled companies, but held 48% of their total equity.

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**Table 1**

<table>
<thead>
<tr>
<th>Corporations (10,000)</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>459.9</td>
</tr>
<tr>
<td>Domestic</td>
<td>477.4</td>
</tr>
<tr>
<td>State-owned</td>
<td>14.3</td>
</tr>
<tr>
<td>Collective-owned</td>
<td>19.2</td>
</tr>
<tr>
<td>Share-holding Cooperatives</td>
<td>6.4</td>
</tr>
<tr>
<td>Joint Ownership</td>
<td>1.1</td>
</tr>
<tr>
<td>State Joint Ownership</td>
<td>0.2</td>
</tr>
<tr>
<td>Collective Joint Ownership</td>
<td>0.4</td>
</tr>
<tr>
<td>Joint State-Collective</td>
<td>0.2</td>
</tr>
<tr>
<td>Other Joint Ownership</td>
<td>0.3</td>
</tr>
<tr>
<td>Limited Liability Corporations</td>
<td>55.1</td>
</tr>
<tr>
<td>State Sole Funded</td>
<td>1.1</td>
</tr>
<tr>
<td>Other Limited Liability Corp.</td>
<td>54.1</td>
</tr>
<tr>
<td>Share-holding Corporations Ltd.</td>
<td>9.7</td>
</tr>
<tr>
<td>Private</td>
<td>359.6</td>
</tr>
<tr>
<td>Other Domestic Corporations</td>
<td>11.9</td>
</tr>
<tr>
<td>Corporations with Funds from Hong Kong, Macao and Taiwan</td>
<td>8.4</td>
</tr>
<tr>
<td>Foreign Funded Corporations</td>
<td>10.2</td>
</tr>
</tbody>
</table>

Based on data from the Chinese Statistical Office, private companies employ 70 million people, which represents 80% of the total industrial employment. Private enterprises account for 70% of industrial profits and in 2008 their profits grew twice as fast (by 31.4%) as state-run companies. The private sector (including the smallest enterprises) is making progress not only in industry but also in services. Finance, however, remains in the hands of state-owned banks and insurers, and the public sector also dominates utilities and transport.

Although members of the communist party have only allowed to be stockholders from 2002, they accounted for 13% of party members in 1993, while a national survey suggested they totalled almost 30% in 2001. And in 2005 (according to data from the Chinese Federation of Industry and Commerce, ACFIC) 39.9% of party members were ‘capitalist employers’. A good number of the 100 richest Chinese people are party members, and according to Li’s calculations more than three quarters of the communist party members became capitalists after joining the party.

The ground lost by Chinese state companies is particularly evident in industry: between 1997 and 2004 their share dropped from 25.5% to 15.3%. Private capital is conquering an increasing number of areas in strategic industries too (energy supply, railway, postal and telecommunications services, defence industry, etc.). Agriculture accounts for 15% of GDP but this is still where 46-47% of employment is found. The ratio of state-owned farms is negligible, totalling a mere 5%, and they employ less than 1% of those working in agriculture. The number of state-owned farms is on the decline as well, totalling 1968 in 2004. The de-collectivisation (marketisation) of agriculture has been underway since the end of the 1970s, but this has not been accepted everywhere throughout the country. According to Li, ‘many thousands’ of villages are still growing produce on a collective basis. In recent years various public-sector measures have been deployed to support collectives, but despite this there are still no official statistics on them, which makes it impossible to know how many there are.

Naughton notes that in spite of the progress made by private capital the state still controls the key positions in the economy. This is because the economy is dominated by companies generating sales revenue of more than CNY 5 million (USD 600,000), and smaller firms account for only 23% of industrial output (2004 figures). In 2003 they established the State-owned Assets Supervision and Administration Commission (SASAC), followed by provincial sub-committees. This organisation is designed to deploy strong control mechanisms over the massive state-run companies fostered by the ‘zhuada fangxiao’ policy. There are 196 large corporations under the SASAC wing, which as colossal conglomerates control hundreds of smaller companies and massive amounts of money. Even SASAC has difficulty in exerting any influence on them.

The influence of the public (collective) sector is greater than the direct economic weighting of state-controlled companies. Many companies that are formally considered to be in private hands have extremely close links to the public sector, and are more intertwined than one would see in capitalist countries. This is why the profitability of private companies is largely thanks to the public sector.

Consequently, what we have here is a very much centralised corporate structure where smaller companies play a key role in employment but the main strategic role is played by state-run companies, which therefore includes capital exports too.

It is not easy to determine the exact ratios of public and private capital in Chinese capital exports.
since the various forms of companies, the uncertainties surrounding their ownership structures and the lack of official data make this impossible. However, the following data reveals that the private sector is currently playing catch-up to the public sector in this context.

The large investments are obviously carried out by state-run companies but generally it is these firms that have sufficient funding. (There are of course some exceptions, such as the financial firm Ping An mentioned earlier.) Estimates suggest that state enterprises falling under the protective arm of central government accounted for 73.5% of outbound FDI in 2003 and 82-83% in 2004-2005. The remaining one-fifth or so came from regional companies, collective production units and private firms.

Just how difficult it is to work out the ownership structure behind capital exports is shown by the following two press releases that are based on data from ministries. According to a press release from the Chinese news agency dated 8 September 2009, a total of 50.2% of Chinese companies investing abroad in 2008 were limited liability companies, 16.1% were state companies (which represents a decline of 3.6 percentage points compared to the previous year) and only 9.4% were private firms. There is no information available on the remaining 20% or so. A good week later, Xinhua quoted the Ministry of Commerce and reported that of the 136 state-controlled enterprises in 2008, a total of 117 invested USD 35.74 billion abroad, which equated 64% of the total capital exports in that year. At the end of 2008, state-run companies employed a total of 597,300 people at their foreign places of business (which is 58% of the total Chinese foreign employment), 40% of whom were locals.

This indicates a dominance of public capital, the limited liability companies are typically in state or local government hands, or are (joint) ventures in some form of collective ownership. (What is also important is that in joint ventures the state still calls the shots, even with a minority shareholding.) The press releases do not cover capital exports over and above the investments made by public and private companies (64+9.4=73.4%). Such exports are probably accounted for by financial investments, but here the ownership structure is unknown. Nonetheless, based on information to date it is likely that the state dominance here is similar, or even higher.

The dominant role of the Chinese state is also illustrated by the state capital fund. The CIC (Chinese Investment Corporation) established in 2007 held US securities worth USD 9.63 billion at the end of 2009. Accordingly one could venture that roughly two-thirds of total Chinese capital exports is driven by the state, i.e. private capital accounts for approximately one-third.

The ratio of ‘purely’ capitalist firms (private shareholders) in the spread of Chinese production capital is therefore rising, but the dominance of the state remains. The concerns about Chinese investments and the obstacles placed in their way are fuelled by this very fact. To a certain extent this explains why Chinese managers prefer to avoid the more protected and regulated European and North American markets, where they encounter too many problems and find it difficult to find their bearings, and instead focus on non-western type markets in Africa and Asia, which are protected with relatively weak institutions and are generally characterised with a high level of state intervention.

Defining the Chinese small and medium-sized business sector is no less difficult than establishing the general ownership structure of the Chinese economy.

According to the Chinese system, a small company is one that employs up to 300 people, a medium-sized company employs 301-2000 people, generates sales revenue of no more than CNY 300 million (roughly USD 44 million), and has assets of no more than CNY 400 million (thus compared to SME standards in Europe these companies can be 8 times as large). These companies account for 99% of all the companies in China and they are rapidly growing in number from year to year. Yet it is difficult to pinpoint just how many there are. The massive differences are presumably derived from whether companies with a few employees are included or not, along with the self-employed. (The statistical office for example includes companies with less than 8 staff, while other state bodies do not)

In 2001 the Chinese authorities revealed there...
were 8 million SMEs,\textsuperscript{12} but on the government’s official website in December 2009 the number of 4.3 million was recorded, while in 2006 the Chinese statistical office reported a figure of 39 million. According to the China Daily there are currently 42 million SMEs in China, while the US investment firm Witter puts the number at around 60 million.\textsuperscript{13}

The most recent data comes from the 2008 survey of the Chinese statistical office. This reveals that there are 28.7 million ‘self-employed’ and a further 16 million production units (including almost 5 million ‘corporations’), i.e. a total of 44.7 million business entities in China. We do not know the exact number of SMEs from this, but if we subtract the number of ‘corporations’ we arrive at the figure of 39.7 million, which is essentially the same as the estimate given by the NBSC for SMEs in 2006.

What is remarkable is that the roughly 40 self-employed businesses and small and medium-sized enterprises were mostly established in the last 10 years. This represents unprecedented growth if we consider that the number of SMEs in the USA and Europe combined (including the self-employed) is about 35 million.

The situation is more balanced when it comes to the socio-economic role of SMEs. Data suggests the GDP share of this sector is around 58-60%, their export share is 60-70%, while they account for 75-80% of the new jobs and urban employment each year as well as 50% of tax receipts. Given the different systems the numbers are perhaps exaggerated a bit – we witnessed similar distortion in Taiwan in the 1990s – but even if only half were true the figures are still high.\textsuperscript{14}

In the European and US capitalist-type economies, SMEs are generally private companies, which is not the case in China. Here the majority of the SMEs, especially the larger ones, are some kind of collectively-owned ‘town and village corporation’ (cooperative).

According to,\textsuperscript{15} CEO of the China First Capital private equity fund, the Chinese SME sector is set to undergo rocketing growth in the coming years: In 2010 investments into the Chinese SME sector will amount to USD 300 million, and by 2011 capital totalling USD 5 billion will be invested by the various equity funds; state financing will shift from public-sector companies to private firms, and in the coming 5 years the average profitability of Chinese SMEs will exceed 40%.

For the large investment funds around the world, acquiring a stake in Chinese SMEs appears to be a promising business opportunity. For example, MD Witter Investments LLC and the New York Global Group have prioritised the strengthening of links with Chinese companies in their business strategies. They are targeting businesses which are already listed or plan to be listed on the large global stock exchanges (i.e. in New York).\textsuperscript{16}

\textbf{STATE SUPPORT OF SMES}

The majority of large corporations are state-owned, and so the private companies emerging as a result of state policy supporting private capital are obviously small at the outset. It is the responsibility of the state and the local governments, especially in times of crisis, to support their growth and technological development. There is an even greater need for this as this business sector principally finances itself from loans, and according to estimates, the crisis squeezing the loan markets means that 40% of Chinese small and medium-sized enterprises were forced to abandon their operations by the middle of 2009, and a further 40% are currently facing the same threat.\textsuperscript{17} Helping these enterprises was the purpose of the government’s loan expansion policy in early 2009.

However, according to a Xinhua statement citing the statistical office that was posted on the Chinese government website, the SME sector could only obtain 50% of the loans. The investments of private firms in the first 9 months of 2009 rose by ‘only’ 27.7%, while the corresponding figure for state-run companies was 48%. This is why the government took quick action to help SMEs with preferential taxation and access to funds.\textsuperscript{18}

The difficulties facing small and medium-sized enterprises are largely thanks to the somewhat less sophisticated technologies and the lack of R+D. Of the roughly 40 million Chinese SMEs only 160,000 can be considered innovative companies.\textsuperscript{19} At the same time there is some innovation potential in the small and medium-sized enterprise sector, as demonstrated by operating results, since the lack...
of financial strength means that these companies cannot convert their ideas into marketable products. The Chinese government is striving to remedy this problem not just centrally but also at local level.

As part of this policy a loan programme worth CNY 33 billion (roughly USD 4.8 billion) was launched in the summer of 2009, where a portion was earmarked for developing the technologies of smaller companies. The tools at the disposal of the SME department at the Chinese Ministry of Industry and Information Technology stimulate the use of information technologies by SMEs, and encourage them to take part in the state-sponsored programme to spread the use of household equipment in rural areas. Expertise in the world of e-business is the best way to prepare for foreign sales and production too.

Thus public monies are mainly provided for technology improvements, to help companies establish research centres and projects together with universities or other corporations, and relying on the coordination from the Ministry of Science and Technology to make the results available to other innovative businesses. To this end the state set up a research laboratory and technology centre specifically for SMEs. 100,000 researchers and technicians are being redirected from universities and research institutions into this project.

State funds are also financing private equity funds (and venture capital) with a view to promoting innovative SMEs. One such example is the National Social Security Fund (NSSF) established in 2000, an investment fund with resources of more than USD 146 billion; it focuses primarily on the domestic market but now intends to invest 20% of its resources on emerging markets and in Europe. (SWF s.a.) The NSSF has already financed 20 private equity funds (in yuan), and what is more, it is not the only central fund involved in these endeavours.

One example of the local government SME policy is Guangdong province, where there are more than 400,000 private companies with aggregate equity in excess of CNY 500 billion. The Bank Supervisory Commission here has helped 23 smaller Chinese companies obtain a stock exchange listing since 2006, facilitating the flow of CNY 8.28 billion into these companies on the capital market. The local government also takes action to encourage SMEs to borrow funds: banks in the province disbursed CNY 4 trillion to this business sector in the first half of 2009, and to encourage further loan expansion the Bank Supervisory Commission set up a loan guarantee system. The collateral securing the loans is not necessarily real estate (buildings, land) and can be intellectual property too (patents). This makes things much easier for smaller businesses and is less of a threat to their basic operations in the future.

The Chinese SME sector is therefore massive and highly differentiated. Obviously only the larger SMEs are really capable of investing abroad, but the restrictions deployed by the state up to the turn of the millennium restrained even their capital exports. This is because until 2002 every foreign investment worth more than USD 1 million required not one but two licences from state authorities. The situation has loosened up since, and in fact, the Chinese government explicitly encourages outward capital investment by SMEs.

In view of the global economic crisis the Chinese leadership launched an economic stimulus programme worth USD 585 billion. This sum is the equivalent of more than 13 percent of Chinese GDP in 2008. And in the first quarter of 2009 the state-owned banks ‘threw’ loans on to the market amounting to half of GDP. The larger part of this more than USD 1 billion sum flowed into speculative areas, pushing prices up. The remainder touched down in the economy, stimulating the domestic market, and so it had a relatively weak impact on capital exports and only supported them indirectly.

Other steps were taken to promote outward investment. In April 2009 a manual was issued to help domestic companies invest abroad. And in May the State Administration of Foreign Exchange Control drafted a policy simplifying the procedure for examining and licensing investments planned abroad.

The SME exhibition organised in Guangzhou in the autumn also focused on helping businesses expand abroad. The Guangdong province leadership strove to invite as many small and medium-sized enterprises to the exhibition as possible (1500) that were already active in other countries, in order for them to pass on their experience to their peers still producing for the domestic market alone (4500
such enterprises were invited). A financial section was opened at the exhibition and a forum was organised with the participation of banks, authorities and financial service providers to talk about the opportunities and make it easier for SMEs to gain access to capital.

Capital exports are traditionally supported by inter-governmental ties at state level, prior to the investment. These ties ensure preferential access for Chinese investments in developing countries, to the detriment of local firms. This is what is stoking the fears of the Chinese ‘expansion’. It seems as if China is slowly taking over the dreaded role from the USA of ‘knocking down national industries’.

CONCLUSION

The number of public Chinese companies is falling but they are growing in size. Private companies and self-employed businesses (SMEs) are burgeoning, the added value is attracting an increasing number of firms to their side while the level of dependence on state-run companies, the public-sector ‘teat’, remains, albeit in a more implicit manner. There is no doubt that this situation means they are almost ‘parasites’ living on the state, while it keeps innovations in check that are fuelled by the will to make profits. The question is what outcome this mixed situation will have. Will it turn capitalism loose on China with its massive population that still has many hundreds of millions of poor people, the same capitalism that is currently crumbling on a global scale, is incapable of alleviating global imbalances and income differences and in recent years has only made things worse, or will it be able to develop a more harmonious socio-economic apparatus. Yet the Chinese ‘mixed economy’ or ‘market socialism’ has performed well so far by historical comparison and by international standards.

If something is worth contemplating from the Chinese development path it is definitely the relationship between the targets and the means. The backbone of Chinese economic policy is based on searching for pragmatic solutions embracing the whole of modern Chinese development, but ones which seek harmony in all respects (within the economy, society and links between the two). State control and market intuition and the balance between the two are subordinated to this, instead of establishing their socio-economic relations after defining the ratios of the former in advance, on a ‘theoretical’ basis. One related lesson here is the issue of human rights. With its ‘single-party dictatorship’ in recent decades China has lifted 200 million people from severe poverty, and economic growth remains subordinate to the priorities of continuously raising employment; this approach has been disputed and criticised in many ways and by many people, but so far the overall results have been positive. Consequently, the mouse has yet to get away…

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