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Introduction

This introductory chapter specifies the main objectives and introduces the methodology and the sampling strategy of the study.

Objectives

The objectives of the study are to

- describe and analyse the nature (size and structure) and dynamics (change over time) of the Chinese domestic private enterprise sector¹
- identify the main constraints to its development including in the regulatory and institutional environment
- assess and discuss the state of reform as it affects the private sector
- identify the opportunities for growth and investment associated with the development of the private sector
- make policy recommendations for supporting the development of the sector.

Structure of the book

The book discusses the following matters relating to the development of private enterprise in China: market competition; finance; taxation; internal governance; labour and management skills; technological challenges; laws and government administrative regulations. The focus of the book is on these matters as they arise directly from analysis of the Survey results. Some other sources of information, such as official statistics, research reports and other publications, are also drawn on when appropriate. The book also provides a more general picture of the development and role of private enterprise in the Chinese economy.²

This book presents basic tabulations, derived from both firm level and chief executive officer (CEO) questionnaires which illuminate key features of the surveyed private enterprises and key issues surrounding CEOs' opinions.

The book also presents in boxes some stylised descriptions of private businesses, including social profiles of the private entrepreneur. The boxes present some successful and some unsuccessful cases. They tell stories which illustrate some typical challenges facing private firms, for example how changes in government policies affect the operation of businesses.

The book offers conclusions and recommendations to the Chinese government on issues, such as the improvement of the existing institutional and policy framework, which have direct implications for the growth and development of private enterprise and the government's reform agenda.

Methodology of the Survey

With the support of the State Economic and Trade Commission (SETC) and the International Finance Corporation (IFC), the research team from the Asia Pacific School of Economics and Management (APSEM) of the Australian National University, and the China Center for Economic Research (CCER) of Peking University conducted a large sample Survey in Beijing, Wenzhou (Zhejiang Province), Shunde (Guangdong Province) and Chengdu (Sichuan Province) on the private sector in July/August 1999.

The study included both the Survey and interviews with officials. The main Survey consisted of three parts: mail-out firm level questionnaires; interviews with chief executive officers (CEO); and interviews with officials at both central and local levels. The main Survey was preceded by a pilot Survey at the end of June 1999 and a launch workshop in Beijing at the beginning of July 1999. Two questionnaires were utilised in the Survey. One was a firm level questionnaire that contained structured questions on factual aspects of a firm's operation and development. These questions were to be answered by company officers designated by CEOs, such as deputy managers or chief accountants.

Altogether 1,600 firm level questionnaires were posted to the randomly selected firms in Beijing, Wenzhou, Shunde and Chengdu (400 in each place) at the beginning of the fieldwork. In response to a low return for the initial mail-out Survey, a little more than 800 additional questionnaires were distributed in the course of the fieldwork both through direct posting and through official channels in the four cities plus two additional cities from Sichuan Province. The total number of the mail-out questionnaires was around 2,400. With a final collection of 628 firm level questionnaires, a response rate of 26.2 per cent was achieved.³

During the June–July period, the research team collected laws and regulations pertinent to the development of private enterprises as well as national and regional level statistics on the size and growth of private business.

Firm level Survey

The firm level Survey was implemented by mailing out the questionnaires to the firms chosen in the sample. Two official letters, one from SETC and the other one from local government agencies, such as provincial or metropolitan Bureaux of Industry and Commerce Management, were included in the mail-outs. The letters explained the Survey background and asked firms to fill out and return the questionnaires within ten days of receipt. Pre-paid envelopes with return address were included in the mail-outs to facilitate the return.

CEO interviews

The second questionnaire was designed for use in the CEO interviews, and had both structured and open-ended questions. The structured questions were filled in by CEOs during interviews.⁴ The open-ended questions were asked by the research team members during interviews. The team members guided the interviews with CEOs with the key issues in their minds. The open-ended questions elicited CEO's opinions on the most important and pressing issues facing private enterprise and the changes that were needed to improve the business and policy environments in which private enterprise operates. The more detailed responses to the open-ended questions were a good supplement to the data from the firm level Survey. A subset of 200 of the 600 surveyed private enterprises in each of the four locations was targeted for the structured CEO interviews.

In each city, some private firms were recommended by local government agencies for the structured CEO interviews. Some were recognised because of their outstanding performance or because they had unique features in economic transformation, such as success in taking over inefficient state-owned enterprises (SOEs). The CEO interviews recommended by local government were useful in providing some insights into key issues involved in the development of private firms.

Interviews with official and non-official institutions

The interviews of officials focused on three types of government institutions: financial institutions including the Central Bank; tax and regulatory agencies; and policy agencies. Interviews with non-official institutions covered commercial banks, and rural credit unions. Interviews with some associations or societies for private enterprises and foreign investors were also carried out in some locations. These interviews with officials and others provided wider perspectives on the issues identified in discussions with private enterprises.

A structured list of questions for the key areas of interview of officials and others was prepared. The interviews were conducted at both the central and local

levels in two stages. The first stage interviews at the central level were undertaken before the main Survey. The second stage interviews were undertaken after the main Survey to ensure that feedback from the Survey was taken into account in the structured questions, making the follow-up interviews more effective.

The data collected through the two questionnaires were stored electronically. Most of the CEO and government interviews were recorded and a written record was kept for each interview. These written records are the basis for some of the boxes in the book which portray interesting aspects of the history or operations of a typical private firm, or the effects of changes in certain government policies on the operations of private firms.

Sampling strategy

Localities

Four cities (Beijing, Chengdu, Shunde and Wenzhou) were chosen as the study sites to provide a range of characteristics with regard to the development of the private sector.⁵ Beijing, as the national capital, provides an opportunity to observe how private enterprises emerge and develop in the place of maximum political and ideological sensitivity, and regulatory controls. Another characteristic of Beijing is that it has witnessed rapid development of high-tech industries in its non-state sector in recent years, principally as a result of the location of many of China's top scientific and technological universities and research institutes in the city. Chengdu is the capital of Sichuan Province and presents a case study of private enterprises in inland areas, and Chengdu has maintained a remarkably strong record of private sector development. Shunde is a county-level city in the Pearl River Delta in Guangdong Province and a star in private sector development. In the 1980s, it was renowned for its township and village enterprises (TVEs). Starting in the early 1990s, it privatised almost all of its state-owned enterprises. Wenzhou has been long renowned for its private economy and is the first city in the country in which private entrepreneurs and enterprises flourished.

This study does not provide a representative sample of private enterprises across the whole of China. Rather, it provides a picture of the private sector in a range of cities in which private enterprises have been important in the local economy. The data from these selected cities reveal the problems and constraints facing private enterprises in China today, at different stages of private sector development.

Stratified random sampling approach

A stratified random sample was adopted in the study. Non-manufacturing firms were excluded from the sample.⁶ The ratio of rural to urban firms to

be sampled in each city was kept roughly the same as the ratio of rural to urban firms in that city. This was achieved by the random selection of firms within rural-urban strata in each city. The share of each type of ownership—privately controlled collective, majority domestic privately owned joint stock enterprise, majority domestic privately-owned joint venture—was kept roughly the same as its respective share in the population.⁷ Finally, a number of high-tech enterprises was included in the sample to ensure representation of this newly emerging group. Firms were selected randomly within each stratum to generate a sample of 400 private manufacturing firms in each of the four cities.

Firms were chosen from the database constructed and maintained by the Bureau of Industry and Commerce Management in each city.⁸ The sample selection and mailing-out of the questionnaires was implemented in two stages. In the first Stage, 400 firms were randomly chosen from the BICM database in each city. The firm questionnaire was mailed out to the selected firms from each city. To allow efficient allocation of resources, the selection of firms for CEO interviews was concentrated in a few counties and districts in Beijing and Wenzhou. In Chengdu, the selection of a few counties and districts was undertaken separately after the city-wide selection from the data base had been completed. Because Shunde is a county-level city, all its townships were included in the sampling process. A total of at least 50 CEO interviews was carried out in each city.

In the second Stage, the additional 200 firm questionnaires were mailed out by the research team in Shunde and Wenzhou, and 340 (some of them accompanied by the CEO questionnaire) were mailed out by the BICM in Beijing.⁹ In Sichuan, in addition to the additional mail-outs of 200 in Chengdu through the Provincial *All China Federation of Industry and Commerce* (ACFIC), 100 firm and CEO questionnaires were also mailed out in two other cities, Mianyang and Deyang, which are relatively close to Chengdu and where many medium and small-size private firms are concentrated.

The rule for choosing the additional firms was similar to that used in the first Stage. Measures were taken to ensure that there was no overlapping in selection of firms between the two Stages. As in the first Stage, the questionnaires were filled out by the selected firms themselves. However, unlike in the first Stage, the questionnaires in the second Stage were sent, collected and mailed back to the research base by the local government agencies (Beijing and Chengdu). As a result, the research team had to rely solely on the written answers to the additional CEO questionnaires without the support of the CEOs' oral responses to the more open-ended questions as in the first Stage. As a result, the more subtle, qualitative insights into the development of the private sector are derived from interviews in the first stage of the Survey.

Analysis of the final sample

Table 1.1 summarises statistics on the firm and CEO questionnaires returned by city. A total of 628 firm questionnaires (189 in the first Stage and 439 in the second Stage) and 338 CEO questionnaires (160 in the first Stage and 178 in the second Stage) were returned. The number of firms returning both the firm and CEO questionnaires is 297 (119 in the first Stage and 178 in the second Stage). In addition, more than 200 CEOs (firms) were interviewed by the research team in the first Stage (55 in Shunde, 52 in Wenzhou, 53 in Beijing and 53 in Chengdu). The statistics shows that the response rates were high in the second Stage indicating that the official channels of distributing and collecting the questionnaires were effective in generating references.

Table 1.2 presents a comparison of the data obtained from the two Stages. This comparison shows that firms Surveyed through the second Stage are on average smaller than those in the first Stage in terms of employment, sales and fixed capital. In other words, the second Stage sample contained a proportionately greater number of smaller firms. The statistics also show that the two samples have a similar distribution pattern as demonstrated by their respective coefficients of variations (CV), although their means are quite different. In view of the mean differences between the two samples, they are complementary to each other in that the second Stage sample includes a proportionately greater number of medium and small-size private firms. The size difference between the two samples may be partly caused by the upper-tail bias created in Stage I sample because some of the firms, especially those with the CEO interviews, in this Stage were recommended by local governments because they were flagship enterprises to be interviewed.

Table 1.1 Summary statistics of received questionnaires

City	Received firm			Received CEO			CEO and firm matched		
	Total	Phase I	Phase II	Total	Phase I	Phase II	Total	Phase I	Phase II
Beijing	354	33	321	99	33	66	93	27	66
Shunde	54	54	–	32	32	–	24	24	–
Chengdu	88	50	38	86	53	33	73	40	33
Wenzhou	52	52	–	42	42	–	28	28	–
Mianyang	29	–	29	28	–	28	28	–	28
Deyang	51	–	51	51	–	51	51	–	51
Total	628	189	439	338	160	178	297	119	178

Source: Survey results.

Table 1.2 A comparison of Phase I and Phase II sample

	Employees (persons)			Sales (mil. yuan)			Fixed capital (mil. yuan)		
	Average	Std. Dev.	CV ¹	Average	Std. Dev.	CV	Average	Std. Dev.	CV
Phase I	264.8	604.1	2.3	47.5	170.0	3.6	13.3	33.8	2.6
Phase II	91.3	277.2	3.0	12.1	35.2	2.9	6.2	29.5	4.8

Note: CV¹ stands for coefficient of variation (dispersion).

Source: Survey results.

Finally, two points relating to the sampling need to be mentioned. First, the inclusion of some recommended firms by local governments into the large sample that was selected in a statistically correct way might, to some degree, compromise the randomness of the total sample. Second, the second Stage sample collected through local government agencies might introduce some response bias, while resulting in a more representative sample (e.g. size of firms). These factors could have some implications for formal analysis of results.

One way to identify the effect of the loss of randomness is to carry out a test for sample biases with any problems being resolved by adjusting the sample weights accordingly. Formal tests for pooling the two samples can be carried out using multivariate regression models with dummy variables for Survey method, Survey location and other factors that might be thought relevant. Several testable hypotheses with respect to private enterprise development in China have been identified and tested, and the results are reported in the statistical appendix of this book.

Notes

1. The study defines domestic private enterprises as all enterprises under the control of private domestic entrepreneurs including joint ventures and township and village enterprises (TVEs). However, due to the practical constraints on selecting firms for the Survey, only those firms which were formally registered as private enterprises are included in the sample. We rely on other sources of information including our own estimates to assess the relative importance of broadly defined private enterprise in the economy.
2. Most tables containing more aggregated pictures of private enterprises, such as their shares in total employment and output, are derived from official publications. Some, such as the relative importance of the private sector in total GDP, are estimated by the research team. Sources are specified with the tables.
3. After taking account of missing mail due mainly to changes of business addresses since registration, the rate of return could be well above 30 per cent.
4. The research team was faced with some choices in conducting the CEO interviews. Filling in the CEO questionnaires during interviews could secure a high return of the questionnaires. However, in so doing, less time would be devoted to the more open-ended questions and it was also likely that some insights that CEOs wanted to convey to the interviewers would be missed if both interviewers and CEOs strictly followed the questionnaires during interviews. On the other hand, by focusing on the more open-ended questions and not asking the CEOs to fill in the questionnaires at the time resulted in some missing questionnaires in the sample. This was because some CEOs failed to send the questionnaires back after interviews despite repeated phone calls by the research team urging them to do so.
5. See Section 3.1 for more detailed descriptions about the four sample cities.
6. 'Firms whose main business is not in the productive sectors (such as trading or real estate firms) will be replaced' (see the Information Note of the project).
7. In the Survey, it was difficult to implement this ownership strategy strictly due to the unavailability of the required database at local government agencies (also see footnote 8) and difficulties in identifying those firms which are not registered private firms but under the control of private domestic entrepreneurs. Single proprietors were excluded from the sampling. Later in the implementation stage, a few joint ventures and firms engaged in commerce and services were also Surveyed.
8. Most of the databases for registered private firms in these cities were constructed only recently. Some are still at a developmental stage and staff could not satisfy the requests put forward by the research team. For example, in the case of Beijing, the Bureau of Industry and Commerce Management had to rely on an external expert to extract the requested data from their system for the sampling. In the case of Wenzhou, the research team had to rely on registration records in written form for sampling since an electronic data system was not available. These practical difficulties affected, to some extent, the implementation of the stratified strategy of sampling.
9. The second phase of the Survey was prompted by the low return rate from the mail-out of the firm level questionnaire in the first phase (see Table 1.1).