3

Descriptions of the sample enterprises

This chapter provides summary statistics of the sample enterprises. It discusses briefly the profiles of the four surveyed cities based mainly on aggregate statistics and then Survey information on the size of enterprises and industry distribution, and recent development and performance of these enterprises. Data are arranged to allow comparisons of private enterprises between cities and industries. The results provide important background information for the subsequent chapters discussing various issues facing private enterprises.

Profiles of the four surveyed cities

Beijing's population is 12.4 million including both urban districts and suburban counties. Shunde is a county-level city with a population of 1.4 million. Chengdu is the provincial capital of Sichuan and has a population of 9.9 million. Wenzhou is a prefecture-level city governing several counties and county-level cities, and has a population of around 7.2 million.[1]

In 1998, the GDP of Beijing, Shunde, Chengdu and Wenzhou was, respectively, 201 billion yuan, 26 billion yuan, 110 billion yuan, and 72 billion yuan. Per capita GDP of the four cities was, respectively, 18,400, 24,800, 11,100, and 10,000 yuan. In terms of industrial output, Beijing had 172 billion yuan, Shunde 60 billion yuan and Chengdu 122 billion yuan in 1998.

Beijing, as the national capital, is particularly sensitive to the political climate. Until recently, the Beijing government had not put forward any concrete plan to help the development of its private sector. Partly as a result, the private sector in Beijing is still in its infancy. Table 3.1 shows that although Beijing had more firms than other cities for which there were data (mainly because of its size), it had the smallest output and sales volume, indicating that its firms were relatively small.

However, the development of the private sector in Beijing has been rapid. In 1992, there were only 1,428 registered private firms, and each firm on average had registered capital of 228 thousand yuan.[2] By 1998, there were 61,113 private

Table 3.1 Basic information of the four cities' private sector in 1998

	Number (Billion yuan)	Output (Billion yuan)	Sales	Employment	Types of firm		
					Corporation	Sole ownership	Partnership
Beijing	61,113	2.4	26.7	–	53,511	6,888	714
Shunde[1]	4,550	35.5	24.1	222,539	23	3,815	712
Chengdu[2]	11,300	14.1	13.0	110,000	7,800	–	–
Wenzhou[3]	107,410	29.7	27.5	–	–	–	–

Notes: [1]Sales figure is for firms with more than 5 million yuan in sales; [2]Output and sales figures for the first half of 1999; [3] Output and sales volume are for firms with more than 5 million yuan in sales.
Source: Data provided by local BICAMs and the statistical yearbooks of the four cities. Gregory et al., 2000, *IFC Report*, Figure 1.5, p.3.

firms with average registered capital of 621 thousand yuan. Among them, 87.6 per cent were limited liability companies, 1.2 per cent partnership firms, and the remaining 11.2 per cent sole ownership firms. In 1998, the municipal government issued a document calling for speeding up the development of the private sector, and the enacting of concrete policies is underway.

In terms of industrial distribution, private firms in Beijing are overwhelmingly concentrated in the tertiary sector. The number of firms in this sector was 4.4 times the number in the secondary sector.

Wenzhou has a long history of private sector development. It has almost no public firms. The size of its private sector is the largest among the four cities in terms of the number of firms and sales volume (Table 3.1). Its industries have formed several nationally renowned geographical clusters, such as electronic parts in Hongqiao, low voltage electrical products in Liushi, and buttons in Qiaotou. In addition, the garment industry is a strong pillar of the local economy.

A major problem associated with private enterprise development in Wenzhou is high land prices. One mu (one fifteenth of a hectare) of land usually costs 150 to 200 thousand yuan, depending on the location of the land. In the extreme case, the price can reach more than 300 thousand yuan per mu. To a large extent, the high price of land is caused by Wenzhou's poor land endowment (each person in Wenzhou has less than one mu of arable land) and fast industrial development. However, the high fees collected by the government may also have influenced land costs. It was estimated by the research team that the total effect of several government fees represented one third to one fourth of the capital value of the land. This suggests that not all of the incidence of fees was on land rent, and therefore that the fees increased land costs. In response to high land prices, firms have begun to move out of Wenzhou.

Shunde's private sector began to take shape largely as a result of its privatisation program from 1992. Currently, there are almost no purely state-owned firms in Shunde. The size of its private sector is the second among the four cities in terms of sales (Table 3.1). Before privatisation, Shunde was renowned for its township and village enterprises (TVEs). Its leading industries were small home appliances such as electric fans, rice cookers, and water heaters.

After the early stage of development, large firms emerged. Currently, there are 72 firms each with an annual sales volume of more than 100 million yuan. In particular, it has become the nation's largest industrial base for home electronics, producing every kind of home electronic product except television sets. Several nationally renowned firms have emerged. They are Kelong (a major national refrigerator producer), MD (the world's largest electric fan producer and a major national producer of air conditioners), Grand (the nation's largest microwave producer), and Wanbao (the nation's largest kitchen steriliser producer). Together with Zhongshan, Nanhai, and Dongguan, Shunde is regarded as one of the four small tigers in Guangdong Province.

The private sector in Chengdu has become a significant contributor to the city's economy. In the first half of 1998, its industrial output was 14.1 billion, accounting for 30.8 per cent of the city's total. Its GDP was 10.7 billion, accounting for 22.3 per cent of the city's total. In the period January to November 1998, the private sector contributed 607 million yuan of tax, accounting for 10.3 per cent of the city's total. In some counties, the private sector dominates the local economy. For example, in 1998, the private sector (private firms and *getihu*) contributed 90 per cent of the total tax revenue in Xinjin county.

In the course of development, large private firms in Chengdu have emerged. In 1992, there was no private firm with registered capital of more than 5 million yuan. By 1998, the number climbed to 260. Among them, the Hope Group, with an annual sales volume of more than 5 billion yuan, is the largest private firm in China. Among the first 20 private firms that obtained the right of direct export, Chengdu had 5. In addition, some large private firms began to buy large SOEs, playing an increasingly significant role in the state sector reform.

Size and industrial distribution

Table 3.2 shows the distribution of employment by firm size in 1995 and 1998 for firms in the sample who provided valid information. In preparing this table, firm size is divided into four categories: no more than 50 workers, 51–100 workers, 101–500 workers, and more than 500 workers.

Overall, the distribution of firm size in the sample did not change significantly from 1995 to 1998, but the data do reveal that during the past three years the number of firms employing less than 51 tended to increase

more than medium and large firms. For example, in 1998 around 61 per cent of firms employed no more than 50 employees (including the owner) as compared with 58 per cent in 1995. It is noteworthy that around 6 per cent of the firms had more than 500 employees in 1995 and the proportion remained basically unchanged in 1998. While there was a slight increase in the number of firms with 101–500 workers, the number for firms with 51–100 fell marginally over the same period.

However, there were large regional differences in firm size. For example, while small firms with no more than 50 employees were predominant in Beijing (their proportion in total private firms increased from 77 per cent in 1995 to 81 per cent in 1998), Shunde had a relatively high percentage of large firms with over 500 employees in both 1995 and 1998. The main reason that Beijing had more small-size private firms was that the development of its private sector started later and was much slower than the other cities due to its closeness to the Central government. The reason that Shunde had more large firms was that many large private firms were transformed from county and township owned firms, the so-called township and village enterprises (TVEs) that had a relatively long history of business development and networking.

Among the four cities, Wenzhou had the highest proportion of large firms in 1998 with a rapidly increasing rate. For example, firms with over 500 workers accounted for only 6.5 per cent in 1995, not distinguishable from cities other than Shunde. But the proportion increased to 21 per cent in 1998. This was mainly the result of extensive mergers in Wenzhou in recent years. Wenzhou is renowned for small private firms producing electronic parts and lower-priced consumer goods such as garments and related products. Conglomerations of firms specialising in similar products is common and several specialised production and distribution centres have emerged in recent years to enhance specialisation and to exploit economies of scale. For example, Hongqiao specialised in producing and distributing small electronic parts, Liushi in low voltage electric products, and Qiaotou in buttons. Local competition is fierce. Out of the competition, however, a few large firms have emerged by consolidating small firms, a practice that has been encouraged by the local governments.

The proportions of small firms with less than 51 workers in the total samples in Chengdu, Mianyang and Deyang were still relatively high especially in Chengdu, but fell quite substantially from 1995 to 1998. Meanwhile, the proportions of medium-size firms especially with the number of workers between 101 to 500 increased rapidly particularly in Mianyang and Deyang. In Mianyang, the number of medium to large firms (between 101 to 500) increased at the highest rate of 54.2 per cent from 1995 to 1998.

Table 3.3 shows the sample firms' average size in terms of employment at two points in time, namely 1995 and 1998. On average, Beijing had the smallest

Table 3.2 Size distribution of sample firms: 1995 and 1998 (%)

No. of workers	Total		Beijing		Shunde		Chengdu		Wenzhou		Mianyang		Deyang	
	1995	1998	1995	1998	1995	1998	1995	1998	1995	1998	1995	1998	1995	1998
>51	57.6	60.8	77.3	81.2	47.8	51.1	59.5	46.7	32.3	11.6	43.8	29.2	48.6	23.4
51–100	18.9	16.8	13.3	11.8	8.7	13.3	18.9	25.3	29.0	25.6	18.8	8.3	28.6	27.7
101–500	17.1	18.2	6.7	6.3	21.7	17.8	13.5	16.0	32.3	46.5	37.5	54.2	17.1	42.6
>500	6.5	6.3	2.7	0.7	21.7	17.8	8.1	12.0	6.5	16.3	0.0	8.3	5.7	6.4
Valid cases	217.0	505.0	75.0	271.0	23.0	45.0	37.0	75.0	31.0	43.0	16.0	24.0	35.0	47.0

Source: Survey data.

firm size in both 1995 and 1998, consistent with the late development of its private sector. Shunde had the largest firm size in 1995 and Wenzhou replaced Shunde to have the largest average firm size in 1998. While the firm's average size in Chengdu increased from 1995 to 1998, the average sizes of the private firms in Deyang and especially in Mianyang surged during the same period. For example, in 1995 the largest firm in Mianyang was 460 workers versus 800 workers in Chengdu and by 1998 the figure for Mianyang was 4,393 workers versus 3,000 workers in Chengdu.

Generally, the size distribution of the sample firms became more dispersed from 1995 to 1998. The coefficient of variation (CV) for all the sample firms became larger and the largest firm became even larger while the smallest firm more or less kept its size during the period. While the average size of the private firms in Beijing and Shunde decreased from 1995 to 1998, it increased substantially in the other four cities. In Wenzhou and Mianyang, the average firm size increased by 1.54 and 0.89 times respectively. Again, Wenzhou's mergers in recent years could explain the increase in firm size. The decrease of the average firm sizes in Beijing and Shunde with respect to their abilities to absorb more employment could be offset by the increases in the size of the largest firms (maximum numbers) in the two cities.

Table 3.4 shows the sample firms' size in the surveyed cities by their average sales, fixed and working capital. Beijing had the smallest firm by

Table 3.3 Statistics of firm size (average employee numbers)

	Employees	CV	Minimum	Maximum
1995				
Beijing	62.1	2.3	3	900
Shunde	403.1	2.1	8	4,019
Chengdu	114.2	1.6	4	800
Wenzhou	152.5	1.4	13	1,020
Mianyang	95.5	1.2	7	460
Deyang	105.8	1.6	6	821
Total	129.6	2.6	3	4,019
1998				
Beijing	47.8	2.3	2	1,100
Shunde	326.8	2.4	5	4,438
Chengdu	181.9	2.3	6	3,000
Wenzhou	387.0	1.7	15	3,000
Mianyang	317.4	2.8	10	4,393
Deyang	180.2	1.2	8	1,002
Total	146.6	2.9	2	4,438

Source: Survey data.

every measure and its differences with other cities were large. Shunde had the largest except for fixed capital in 1998, when Mianyang took its place with the highest average fixed capital investment. The reason that Mianyang had the largest firms in terms of fixed capital in 1998 was that it had high concentration of firms in metal and nonmetal manufacturing (see Table 3.5). Another observation from Table 3.4 is that while the average values of both sales and fixed capital for the total sample increased substantially from 1995 to 1998, the average value of working capital actually fell (slightly) during the same period. This reduction in the value of working capital may reflect the difficulties facing private firms in financing their business activities in recent years.[3]

Table 3.5 shows the industrial distribution of the sample firms in 1998. Industries are grouped into eight categories based on the smaller categorisation used by the third national industrial census conducted in 1995. For all the six cities, garments and other light products were the largest industry, taking a share of 23.2 per cent of the total number of firms. Electronics and equipment were the next largest industries with a share of 16.1 per cent, and chemicals took the third position with a share of 12.7 per cent. These three industries contributed 52 per cent of the 544 firms with valid answers.

Steady and high demand for their products is common to these three industries. Garments, electronic products such as refrigerators, air conditioners and other light products enter directly into the consumer market. In addition, electronic parts, such as those produced in Wenzhou, are closely linked with consumer electronics. None of the sample firms is engaged in heavy chemicals such as oil refining, but many of them produce paints that are widely used in household renovation, a fashion which is currently spreading throughout the country. In addition, producing garments, chemicals, and electronic parts does not require much physical and human capital. The large-size home appliance companies in Shunde also started from smaller factories producing lower-priced electronic products.

Again, there were regional differences with regard to industrial distribution. For example, private firms in Beijing had a high concentration in garments and other light products, and electronics and equipment. Shunde also had, in addition to these two industries, a high concentration in chemicals. Firms in Chengdu were spread more widely across industries including food and cigarettes, garments and other light products, chemicals, machinery and electronics and apparatuses. Wenzhou had a very high concentration in machinery manufacturing and electronic products. Mianyang seemed to specialise in metal and non-metal manufacturing apart from food and cigarettes, and machinery. Last, Deyang had a high concentration in garments and chemicals as well as food and cigarettes.

Table 3.4 Sales and capital of sample firms: 1995 and 1998 (million yuan, current prices)

	Sales		Fixed capital		Working capital	
	1995	1998	1995	1998	1995	1998
Beijing	5.0 (62)	7.0 (256)	8.3 (32)	6.5 (184)	0.7 (23)	0.6 (160)
Shunde	45.1 (21)	72.4 (43)	40.2 (16)	72.0 (29)	9.9 (15)	10.8 (25)
Chengdu	24.3 (26)	28.1 (64)	24.4 (16)	48.0 (42)	2.1 (13)	2.4 (39)
Wenzhou	13.9 (34)	58.4 (46)	16.4 (24)	31.7 (34)	1.1 (20)	4.1 (30)
Mianyang	10.7 (17)	27.9 (25)	19.8 (11)	101.4 (18)	0.7 (11)	2.4 (17)
Deyang	11.3 (32)	20.7 (47)	9.8 (27)	16.2 (37)	1.2 (22)	1.9 (35)
Total	15.2 (192)	23.0 (481)	17.3 (126)	25.6 (344)	2.4 (104)	2.2 (306)

Note: The number of valid cases is listed in parentheses.
Source: Survey results.

Table 3.5 Industrial distribution of sample firms, 1998 (%)

Industry	All	Beijing	Shunde	Chengdu	Wenzhou	Mianyang	Deyang
Primary industries	3.0	2.5	5.6	2.3	–	–	9.8
Food and cigarettes	9.9	9.0	7.4	11.4	3.8	17.2	17.6
Garments and other light products	23.2	26.8	27.8	17.0	13.5	6.9	23.5
Chemicals	12.7	9.9	18.5	19.3	7.7	3.4	25.5
Metal and non-metal manufacturing	8.0	7.3	9.3	3.4	9.6	24.1	7.8
Machinery	8.8	5.6	7.4	12.5	28.8	13.8	2.0
Electronics and equipment	16.1	15.8	16.7	17.0	34.6	3.4	3.9
Others	4.9	7.1	1.9	1.1	–	6.9	3.9
Number of firms	544	298	51	74	51	22	48

Notes: Primary industries: coal mining, oil and natural gas, steel, metal mining, non-metal mining and timber. Food and cigarettes: food processing, food producing, beverages, and cigarettes. Garments and other light products: garments, leather, fur, timber processing, furniture, paper, printing, and sports and educational products. Chemicals: oil refining, general chemicals, medicine, chemical fibers, rubber, and plastic products. Metal and non-metal manufacturing: non-metal products, primary steel products, primary nonferrous metal products, and metal products. Machinery: general machinery manufacturing, special machinery and equipment, and transportation equipment. Electronics and apparatuses: electronic machinery and equipment, other electronic and telecom equipment, and apparatuses and office equipment. Others: electricity and hot water supply, gas, water supply, construction, repairing, services, and agriculture.
Source: Survey results. Gregory et al., 2000, *IFC Report*, Table 1.1, p.4.

Evolution and performance

Tables 3.3 and 3.4 show that the sample firms became larger from 1995 to 1998 by almost every measure. However, there were significant regional differences with regard to some indicators. For example, while employment in other cities increased, it decreased in Beijing and Shunde. In terms of sales, firms in all six cities had increases, but those in Wenzhou and Mianyang increased the fastest.

Beijing was the only city that experienced a decrease in fixed and working capital per firm. This is also shown in Table 3.6, which records the change of the total capital stock (fixed and working capital together) since the establishment of the firm. Among the 54 firms who provided the information in Beijing, 12 or 22 per cent reported a decrease in their capital. The percentage was under eight for all the other cities.

Yet, in terms of the average growth of the capital stock, Beijing did not have the lowest rate. On average, its firms were the youngest among the six cities, being in business for an average of only 3.5 years, but the average capital stock increased by 97 times. This growth rate was second only to Wenzhou, which had the longest business histories—8.2 years on average— and the highest growth rate of capital stock, 255 times per year. This shows that the growth of firms in Beijing has been polarised: quite a few firms have shrunk, and some firms have experienced extraordinary growth rates in recent years. The high growth rate in Wenzhou may be explained both by its longer history of private sector development and by mergers in recent years. Other cities' growth rates were more moderate, but still remarkable by conventional standards.

On average, the 230 firms that provided information have survived in the market for 5.7 years and experienced a growth rate of capital of 51 times per year.

Table 3.6 Growth of capital stock since the founding of the firm

	Decreased		No change		Increased		All firms		
	Firms	%	Firms	%	Firms	%	Firms	Years in operation	Growth (times)
Beijing	12	22.2	2	3.7	40	74.1	54	3.5	97
Shunde	1	4.8	2	9.5	18	85.7	21	6.3	12
Chengdu	5	7.7	1	1.5	59	90.8	65	5.0	9
Wenzhou	–	–	–	–	29	100.0	29	8.2	2088
Mianyang	1	5.0	–	–	19	95.0	20	5.4	29
Deyang	1	2.4	–	–	40	97.6	41	7.1	30
All	20	8.7	5	2.2	205	89.1	230	5.7	292

Source: CEO survey.

Table 3.7 Pre-tax profitability of sample firms by city: 1995 and 1998 (1,000 yuan in current price)

	% of profitable (1,000 yuan)		Profit per worker (yuan/yuan)		Return to capital	
City	1995	1998	1995	1998	1995	1998
Beijing	70.0	67.2	9.9	9.0	0.54	0.49
Shunde	91.7	87.5	43.4	31.6	0.40	0.23
Chengdu	81.8	88.6	37.7	55.0	0.42	0.13
Wenzhou	75.0	87.1	28.3	31.2	0.71	0.53
Mianyang	87.5	90.0	30.1	29.0	0.49	0.30
Deyang	95.0	96.4	24.7	21.8	0.40	0.37
Total	81.0	78.5	25.2	9.6	0.50	0.40

Note: Return to capital is defined as a ratio of profit to firms' total capital.
Source: Firm survey.

Of the firms, 8.7 per cent of them (20 firms) experienced a fall in their capital stock, 89.1 per cent (205 firms) experienced an increase, and the rest, about 2.2 per cent (5 firms), remained unchanged. Viewed from this perspective, it can be seen that there has been progress in developing and expanding private firms in these cities. But we need to look at other indicators, especially the profitability of the sample firms, to judge the overall performance of the private firms.

Table 3.7 shows that, generally, the profitability of the surveyed firms was lower in 1998 than in 1995. The percentage of profitable firms declined from 81 per cent in 1995 to 78 per cent in 1998. During the same period, annual profit per worker declined from 25,200 yuan to 9,600 yuan, and return to capital declined from 50 per cent to 40 per cent. It is noteworthy that the calculation in the table does not take into account the effect of inflation, thus exaggerating return on capital when prices are rising, as they were in the mid 1990s.

The contrast between increased sales and capital stock, and reduced profitability among the sample firms is interesting. The growth of sales and capital stock might be the consequence of an enlarged market size and the decline of profitability, but on the other hand, it might be the result of increased competition. The economic slowdown since 1997 may have played a role in increasing price competition, but it is interesting to find that the increased competition did not take a toll on firms' sales.

Profitability of private firms was not distributed evenly across regions. For example, Beijing had the lowest percentage of firms in the black and the lowest profit per worker in both 1995 and 1998. In particular, its profit per worker was only about 40 per cent of the lowest of the five other cities. However, its return

Table 3.8 Pre-tax profitability by industry (current prices)

Industry	Number of firms		% of profitable		Profit per worker (1,000 yuan)		Return to capital (yuan/yuan)	
	1995	1998	1995	1998	1995	1998	1995	1998
Primary industries	5.0	6.0	80.1	83.0	5.9	7.9	0.09	0.12
Foods and cigarettes	9.0	23.0	78.0	70.0	43.1	23.5	0.16	0.15
Garments & other light products	25.0	70.0	76.0	73.0	13.6	18.2	0.27	0.15
Chemicals	13.0	48.0	100.0	83.0	36.2	21.3	0.92	0.33
Metal & non-metal products	13.0	24.0	92.0	88.0	23.6	20.1	0.66	0.26
Machinery	15.0	24.0	87.0	92.0	34.5	51.8	0.34	2.03
Electronics & equipment	17.0	43.0	59.0	74.0	30.2	73.4	0.59	0.52
Others	6.0	10.0	83.0	70.0	10.2	7.8	0.25	0.19

Note: Return to capital is defined as a ratio of profit to firms' total capital.
Source: Firm survey.

to capital was the highest in 1995 and second in 1998. This contrast shows that Beijing's firms tended to be more labour-intensive than those in the other cities. While the return to capital declined in all the six cities, decline in the number of profitable firms and profit per worker was concentrated mainly in Beijing and Shunde. Chengdu and Wenzhou experienced increases in both indicators, and Mianyang and Deyang had an increase in the number of profitable firms but experienced decreases in profit per worker.

Different performances were also observed across industries and firm size. Table 3.8 shows that firms in machinery and electronics and equipment performed the best on all three indicators, namely the percentage of firms in the 'black', profit per worker, and return to capital, increased significantly in 1998 over 1995. Firms in primary industries followed. Firms in all the other industries experienced decreases in all three indicators. Firms producing products experiencing high demand growth, i.e., electronics and related products, performed better than firms in other sectors.

In terms of firm size, the three indicators improved for the largest firms in 1998, but all worsened for the smallest firms. The results for the two medium-size categories were mixed (Table 3.9). In 1998, larger firms performed better than smaller firms in terms of the percentage of profitable firms and profit per worker. The results for return to capital were mixed: firms of 101 to 500 employees had the highest rate of return, and firms of 51 to 100 employees had the lowest. Large firms have fewer competitors in the market, and tend to adopt labour-saving and capital-intensive technologies. In addition, large firms usually acquire a unique technological or product advantage either in the end-product market or in the market for intermediate goods. There is also a tendency for the large firms to include those which have been commercially successful in recent years. These factors largely explain the differences in profitability of the sample firms.

Table 3.9 Pre-tax profitability by firm size (current prices)

	Number of firms		% of profitable		Profit per worker (1,000 yuan)		Return to capital (yuan/yuan)	
Size	1995	1998	1995	1998	1995	1998	1995	1998
< 51 employees	50	128	78.0	74.2	20.0	5.9	0.51	0.15
51–100 employees	20	51	70.0	76.5	18.3	24.0	0.34	0.08
101–500 employees	23	50	100.0	88.0	35.2	44.0	0.65	1.17
> 500 employees	6	15	83.3	93.3	57.7	56.8	0.30	0.35

Source: Firm survey.

In summary, by all measures, Beijing's private firms were on average the smallest in size amongst the six cities. Shunde had the largest firm size on average, but it has also experienced a considerable decline in employment and profitability in recent years. In contrast, the other four cities, especially Chengdu and Wenzhou, made significant progress in terms of employment, sales, capital accumulation, and profitability. Generally, larger firms fared better than smaller firms did in the same period.

As a result of government policy of 'letting go the small ones', a lot of small size SOEs have been privatised in various forms (sold, leased and taken over by private firms) in recent years. How are these privatised firms performing in comparison with ordinary private firms? A finding from such comparison would be interesting in that implications for constraints on the performance of privatised firms could be drawn.

There are 24 privatised firms altogether in the sample. Among them, only eight firms provided valid data to be used for calculating profitability. A simple comparison between these eight firms with 49 other firms with valid data in terms of their respective profitability (mean value) shows that the average pre-tax return on capital as defined in Table 3.7 for these two types of firms are 0.8 per cent and 15.5 per cent, respectively. That is, privatised firms on average have a much lower profitability than other private firms. The poor performance of these privatised firms in comparison with other private firms may indicate that there are some constraints on the operation of privatised firms possibly associated with the transitional period. However, due to the limited sample size as well as the poor statistical results,[4] caution needs to be taken in interpreting these results.

Notes

1. The data are from various provincial and metropolitan statistics.
2. Registered capital is amount of capital a firm reports to BICM when it gets formally registered. It provides a kind of base line for BICM to monitor firms' performance and adjust their business status accordingly. For example, Article 13 in Chapter 3 of *the Procedure for Registration for Private Enterprises* issued by State BICM on 20 July 1991 requires that private enterprises whose real capital increases (or decreases) by 20 per cent of their registered capital come back to BICM applying for registration for change. For those whose registered capital fall by more than 20 per cent, BICM will re-evaluate their scope and way of business operation. According to the same article, limited liabilities firms cannot reduce the amount of their registered capital.
3. However, data in Table 3.4 indicate that the average value of working capital for each city show a trend of increasing except Beijing which marked a fall from 0.74 in 1985 to 0.57 million yuan in 1998.
4. The t-statistic for the two means is 1.47, showing that they are not statistically different. This may be due to the fact that the standard deviation of privatised firms (13.7 per cent) is much larger than that of the other firms (3.9 per cent).