

Annex 2 Survey Report

Since the 1980s, with the economic system transition and social structure transformation in the People's Republic of China (PRC), between the crevices of traditional system, a new type of economy appeared in the market economy, which is different from public economy. The amendment to the Constitution of the PRC, passed in 1998, explicitly entitled this type of economy as "private economy. Private economy includes private enterprises and individual industrial or commercial households. The latter constitutes small-scale private economy, which is also the predecessor of private enterprises. These refer to those enterprises with more than eight employees, whose investment mainly comes from individuals and which are registered as private enterprises. In the realistic environment, before private enterprises are recognized by law, to avoid mentioning the term "private", these private enterprises were also known as citizen-run enterprises. Some were even attached to state-owned or collectively owned enterprises (red cap). In view of the complexity of the classification of the enterprises in the PRC, the main focus of this survey are those registered as private enterprises.

Part One. The Development History and Present Situation of Private Enterprises in the People's Republic of China

The Development History of the PRC's Private Enterprises

Since the foundation of the PRC, private enterprises that prevailed in cities have undergone a socialist transformation. In 1956, the socialist transformation was largely finished, and there were only about 160,000 people engaged in the individual industrial and commercial sector (the predecessor of private enterprises) in cities and towns. After the eighth Conference of the Chinese Communist Party (CCP) in 1956, the state began to pay attention to the restoration and development of the private economy. Consequently, the individual industrial and commercial sector grew to some extent. At the end of 1957, the number of people engaged in the individual industrial and commercial sector in cities and towns increased to 1,040,000. Due to the influence of the Great Leap and 3 years of natural catastrophe (1959–1961), this number declined. The new policies adopted in 1962 caused the individual industrial and commercial sector to recover and move forward. However, in under the Culture Revolution (1966–1976), the individual industrial and commercial sector was continuously attacked and destroyed. By 1976, the individual industrial and commercial sector was on the brink of extinction, and only 180,000 people were engaged in it all over the country. In 1978, there were only 140,000 individuals engaged in the individual industrial and commercial sector, and the private economy has lost its legal status.

After the third session of CCP's eleventh Conference in 1978, however, the situation began to change. On 17 August 1980, in its notice of the forward issuance of the national labor and employment conference document, the Central Committee of the CCP explicitly required the

encouragement of and support to the development of individual household economy in cities and towns. After this sector's recovery in from 1979 to 1981, the number of people engaged in individual industrial and commercial sector again increased from 140,000 at the end of 1978 to 2,279,000, or about 1,829,000 households in all. From 1986 to 1988, private economy grew rapidly, but some serious problems also surfaced. From 1989 to 1991, the state strengthened the administration and rectification of private economy. At the same time, relevant polices and rules were perfected. In those years, directed by state policies and influenced by market mechanism, the private economy underwent rectification in the field of sector structure, human resources structure, and management scales. The unreasonably high growth speed in previous years slowed down and private economy entered a stage of adjustment and consolidation.

After Deng Xiaoping's speeches in his visit in the south of the PRC and the fourteenth Conference of the CCP, private economy entered an era of rapid development. Both the modernization construction and the reforming and opening process of the PRC country developed at a high speed, and national economy grew continuously, rapidly, and healthily; the pace of reformation and the process of opening the economy to the outside world quickened. In 1993, though some problems surfaced, because the state took measures to strengthen overall control in a timely manner, economic order became normal gradually. Consequently, rapid growth was enjoyed in 1994 and 1995. 1998 was the first year after the fifteenth Conference of CCP. Encouraged by the spirits of the fifteenth Conference of CCP, the economy continued to develop rapidly. At the end of December 1998, there were about 31,202,000 individual industrial and commercial households, 2,693,400 households or 9.45% more than the preceding year; and 61,144,000 people engaged in 6,725,500 households or 12.36% more than the preceding year; the registered assets totaled 312,031 million yuan, about 54,632 million yuan or 21.22% over the previous year. The growth brought favorable economic effects with it. The output value all over the country amounted to 596,035 million yuan, 31.92% more than the preceding year. The business revenue totaled 175 billion yuan or 23.49% more than the preceding year. The value of retailed social consuming goods was 978,046 million yuan, 21.41% more than the preceding year. The foreign currencies earned were equal to 2,269,million yuan, 35.96% more than the preceding year; while social contributions totaled 730,749 million yuan, or 10.72% more than the preceding year. These households were the basis of the private economy in the following years.

The Present Development Situation of the Private Economy

According to the latest *Development Report of China's Private Economy*, there are nearly three million registered private enterprise investors in the PRC, possessing nearly 1,000 billion yuan registered assets, employing more than 18 million people, and operating about 1.5 million enterprises of different types. After more than 20 years of development, private economy in the PRC has grown to be an important part of the national economy. Its output value constitutes more than one third of the total gross domestic product (GDP). In some areas in the east of the country, this figure is over 50%. The business scale of private enterprises in the country continues to expand. Take Zhejiang Province, where private economy is the most developed nationwide as an example, in 2000 alone, nearly 50,000 private enterprises were "born".

According to an estimate, in 2000, the GDP of Zhejiang Province was more than 600 billion yuan for the first time, or 11% over that of the preceding year. This growth rate is 3% higher than the national average. It is estimated that the per capita GDP of Zhejiang Province will exceed 13,000 yuan, only less than that of Shanghai, Beijing, and Tianjin, ranking ahead of all the other provinces and autonomous zones. This proves that Zhejiang Province, the former economically small province with poor resources, has become one of those provinces that are big in an economic sense. According to statistics from Zhejiang Provincial Industrial and Commercial Bureau, by the end of 2000, the total number of private enterprises in Zhejiang Province has reached 146,400, with 1,919,000 people engaged in them. In terms of the private enterprises' total output value and retail value of social consuming goods, Zhejiang Province ranks number one nationwide. Zhejiang, the leader of economic growth, proves that the development of the private economy is the right path to take.

Part Two. Goals and Methodology of the Survey

According to the Asian Development Bank (ADB), the goals of this Survey of the PRC's Private Enterprise Development were: (i) to know the present basic situation and future developing trends of the PRC's private enterprises; (ii) to study the difficulties and challenges encountered by the PRC's private enterprises in their development; and (iii) to proffer relevant opinions and suggestions for the acceleration of the development of private enterprises to relevant governmental divisions and national industry and chamber of commerce. With the supervision of foreign experts, domestic experts and China General Chamber of Commerce (CGCC) designated sample cities jointly. In the designation of sample cities, results of a similar survey conducted by the International Finance Corporation (IFC) and development of the laws of the PRC's private enterprises were taken into full consideration. All regions, where private enterprises were both less developed and fully developed, and both urban and rural regions were taken into consideration. Based on the overall situation, five sample cities and regions were designated.

Beijing: Beijing is the capital of the PRC. Meanwhile it is also a region with many high technology enterprises. Though private enterprises do not develop fast in Beijing due to influences of politics and various policies, in recent years, newly emerging private high technology enterprises began to develop quickly; private service firms with a strong knowledge and professional character grow fast in Beijing. This represents a trend of private enterprise development. The survey samples not only include the urban areas but also the private enterprises in suburban districts and counties attached to the sample cities and regions.

Shenyang: Shenyang is the capital city of Liaoning Province and also the economic center of the PRC's northeast region. In the past half century, it was a heavy industry based where state-owned enterprises constituted the major part of its enterprises. Due to the influences of state-owned enterprises and old notions, private enterprises in this region develop relatively slowly. Therefore it can be said that Shenyang is typical in a special way. It is not only the

economic, cultural, transportation, banking, and commercial center of the PRC's northeast, but also an important industrial basis and a famous city with a long history and rich culture in the country. Shenyang's private economy began to develop rapidly in the latter part of the 1980s after the reformation and opening up process. Compared with private economy of open cities in the south, Shenyang's private economy started rather late, but the pace of development was relatively fast. By the end of 2000, the number of registered private enterprises in Shenyang reached 20,000; among them, nearly 70 private enterprises had output exceeding 100 million yuan. The registered capital of the private enterprises in Shenyang has already reached 17.4 billion yuan. The yearly increased value of private economy constitutes as high as 47% of Shenyang's GDP. Private economy has become a major force in Shenyang's economic growth.

Xi'an: Xi'an is the capital city of Shan'xi province in the PRC's northwest, located at the linkage area of the PRC's middle and east economic regions. It is a pivot point of the transportation network that connects the northwestern cities and southwest, middle plains, and east PRC. It is also the biggest city on the Longhai and Lanxin railway line, the second land bridge connecting Europe and Asia. In the national overall economic layout, it maintains strategic importance as it connects the east and the west. Its favorable geographical location and long historic source make it the biggest goods circulation center and material resources distribution center in northwest PRC. After the foundation of the PRC, Xi'an soon developed into a major industrial base, especially a base for state defense industries, scientific research, and higher education. In Develop the West strategy, Xi'an plays an outstanding role. West PRC is relatively backward, reflected not only by its economic level, but also by the extent of the reformation and opening process and the development of the entrepreneurs' ideas. Therefore, the development situation of private enterprises in this city represents that of those private enterprises in relatively less developed regions. In the past 2 years, however, Xi'an's private economy has been developing fast, which represents the development situation of the private enterprises in west PRC. In this survey, the development situation of private enterprises in the districts and counties attached to Xi'an was also included.

Wenzhou: Wenzhou is a district of an eastern province of the PRC. It is the hometown of "Wenzhou Pattern" of township enterprises' development. Wenzhou has a commercial tradition since ancient times. It is a typical representative of the development of private enterprises in the PRC's rural areas. This district was also IFC's sample city in 1999. Since opening up, the township enterprises in Wenzhou has made rapid progress. Many farmers were "liberated" from land and engaged in the second and third industries. Many household businesses started operations. In a short time, the phenomenon appeared that almost every town and every village had an enterprise. In 1997, among all the township enterprises, there were 27 enterprise groups, 24 enterprises with annual business revenue exceeding 100 million yuan. The total annual business revenue of these 24 enterprises amounted to 6,018 million yuan; among them, CHNT Group and Delixi Group had yearly outputs each of 2 billion yuan in value, and both earned from exports income exceeding \$30 million in value. The characteristic of Wenzhou's township

enterprises' pattern is the development of private enterprises. After nearly 20 years of growth, the Wenzhou pattern of development relying heavily on private enterprises beat South Jiangshu's pattern of development relying heavily on the development of collectively owned economy. At present, over 90% of the township enterprises in Wenzhou are private enterprises. In this survey, the development situation of private enterprises in districts and counties attached to Wenzhou municipality was also taken into account.

Nanhai: Nanhai is a city on county level in Guangdong province in south of the PRC. It is 50 kilometers away from Guangzhou's urban areas. Located in Pearl River Delta, benefiting from the reformation and opening policies, and influenced by Hong Kong, China and Macao, it is one of the earliest areas in the PRC where private enterprises began to develop. In terms of comprehensive power, it is one of the top cities among all the cities in the same administrative level all over the country. It is known as one of the "four little tigers" in Guangdong's economic growth. It is the root of Nanhai development pattern, characterized by the rapid growth of nonpublicly-owned economy, especially citizen-run economy. Nanhai is a typical representative of the development situation of private enterprises in county-level cities in Pearl River Delta regions. It is very similar to another sample city, Shunde, surveyed by IFC in 1999. In this survey, the development situation of private enterprises in the towns attached to Nanhai was also included.

The basic situation of the five sample regions is as follows:

Table A2.1 Basic Situation in the Five Sample Regions

City	Population (10,000)	Area (sq km)	GDP(10,000 yuan)	Administrative level	Geographic location
Beijing	1,249.90	16,808	21,744,600	Municipality directly under State Council	North of China
Shenyang	677.08	12,980	10,131,885	Provincial Capital City	Northeast of China
Xi'an	688.01	9,983	6,137,007	Provincial Capital City	Northwest of China
Wenzhou	721.62	11,784	7,331,880	City on district level (between provincial capital city level and county level)	East of China
Nanhai	108.50	1,150	3,058,554	City on county level	South of China

Source: *Yearly Book of Statistics of Cities in China*, China Statistics Publishing House, various issues.

After the designation of sample regions, the concrete sampling method was studied. Judging from the experiences of the survey conducted by IFC in 1999, as well as the fact that private enterprises were only recognized by law in 1998, there would be practical difficulties if the simple random sampling was adopted: the phenomenon might appear that a lot of sample enterprises change or disappear, and at the same time, it would be difficult to obtain feedback questionnaires responded to in a professional manner. Therefore, member enterprises of CGCC

were sampled. The advantages of this sampling method are that the expected feedback rate is high, the statistics obtained via the questionnaires are reliable; questionnaires are easy to conduct, and the sample enterprises reflect the development situation of those private enterprises with relatively large-scale and standardized management. The disadvantages are that since the sample enterprises are large-scaled and have a relatively long history, only the situation of those fairly well developed private enterprises is reflected while the situation of those less developed enterprises is not sufficiently reflected. For this shortcoming, it is compensated by the separate analysis of the regions where private enterprises are relatively less developed. Therefore it is believed that this sampling method can well serve the purposes of this survey.

After the sampling method was decided, the corresponding questionnaire and chief executive officer (CEO) interview outline were designed. Test interviews were conducted in Beijing. The team members taking part in the survey were trained. Meanwhile, special survey teams were established and sent to the five sample cities. Every survey team included a professor from Tsinghua University, an official from National Industry and Commerce Chamber, a doctoral student or MBA student from Tsinghua University, and five or six undergraduates. In every sample city, two local chamber officials assisted in all survey activities.

All survey activities were carried out from 15 July to 30 August 2001. Three methods were adopted to acquire data: (i) Member enterprises of local chambers were invited to a certain place to fill out the questionnaires. Usual procedure was that the questionnaires were filled out after surveyors have explained them to the respondents; the surveyors then collect and check the questionnaires on the spot. About 70% of the statistics were gathered by this means and they were of the highest quality; (ii) Questionnaires were sent to target enterprises, who were then asked to fill out such questionnaires and send them back. About 10% of the statistics were gathered by this means and they proved to be of relatively poor quality. Several questionnaires were finally given up (iii) Local chambers contacted the target enterprises beforehand, the surveyors then visited these enterprises and filled the questionnaires right there and then. About 20% of the statistics were gathered by this means and they were of high quality, but the efficiency was low. In general, the survey went smoothly. However, because the number of member enterprises of Xi'an commerce chamber was lower than 80, the third means was adopted and surveyors went to non-chamber member private enterprises to conduct survey activities. This kind of samples constituted about half of all the samples in Xi'an.

Originally it was decided that the effective samples in every city should be no less than 150, and the total number should be 750. During the survey, altogether more than 1,000 questionnaires were handed out and 777 effective questionnaires were retrieved. During the processing of the data, in view of the reasonableness and truthfulness, some void questionnaires were removed. The final effective questionnaires totaled 756. This result met the requirement that the statistics should be multifarious and representative, as well as the quantity requirement. After the initial report on the survey results was prepared, the questionnaires were again screened for unreasonable ones. Some unreasonable questionnaires were found, which were mainly from those enterprises with less than eight employees, and those enterprises with more than 10,000 employees, and sales amount exceeding one billion yuan. The final total number of effective

questionnaires reached 724, and with very high quality. Meanwhile, the 82 interviews with CEOs were all valid. The information gathered in these interviews effectively supported the conclusions drawn on the basis of the questionnaire survey. The number of questionnaires and CEO interviews in the surveyed cities are as follows:

Table A2.2 Distribution of Samples in Surveyed Cities

	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Total
Questionnaires	143	152	134	148	147	724
CEO Interviews	15	20	17	15	15	82

Part Three. Analysis of the Survey Result

Basic Information about the Enterprises

Most private enterprises surveyed this time were founded after the implementation of reforming and opening policies. On average, they have a history of 9.28 years, i.e., they were founded at about 1992. The median of all the sample enterprises' histories is 8 years, the longest being 50 years and the shortest being 0 year, or those founded in 2001. The details are illustrated as follows:

Table A2.3 Histories of Private Enterprises in Different Cities (unit: year)

Total	9.28
Beijing	9.10
Xi'an	8.55
Wenzhou	9.45
Shenyang	8.96
Nanhai	10.30

Among the five cities, private economy in Nanhai started to grow the earliest. On average, the private enterprises there were founded in 1990. This is followed by Wenzhou, Beijing, Shenyang, and Xi'an. Private economy in Xi'an started to grow the latest, wherein the majority of the private enterprises were founded after 1993. This corresponds with the order of the PRC's reform and opening up process. As coastal opening cities, Nanhai and Wenzhou first benefited from the policies and the notions of local people changed earlier than people elsewhere. In these two cities, private economy started to develop rather early and its scale, quantity, and quality are more satisfactory than those of inland cities. Xi'an is an inland city of west PRC, where the economic system reform began the latest. Consequently, private economy started to develop relatively late. But, due to the PRC's efforts in hastening the development of the west, Xi'an's private economy is growing more and more rapidly.

Some characteristics are obvious concerning the sector distribution of private enterprises. All over the country, the majority of private enterprises is engaged in the retail sector (C40, 8.9%), followed by manufacture of metal products (C28, 6.7%) and then manufacture of special industrial machinery and equipment (C30, 5.8%), food service sector (C47, 5.7%), other service sector (C50, 5.4%), textile sector (C11, 5.3%), and manufacture of wearing apparel sector (C12, 5.2%). However, almost no private enterprises are engaged in sectors like excavation, cigarette manufacturing, petroleum processing, and legal services. The reason has something to do with the characteristics of each of these sectors. Some sectors need large amounts of capital investment, like the petroleum processing sector and excavation sector; some sectors need professional technical support, like legal service sector. Besides, relevant state policies stipulate that private economy cannot engage in some sectors, which are essential for the whole country.

Sector Code	Sector Name
--------------------	--------------------

C1	Coal mining
C2	Petroleum and gas extraction
C3	Iron and steel processing
C4	Metals mining
C5	Nonmetals mining
C1	Logging and transport of timber and bamboo
C7	Food processing
C8	Food manufacturing
C9	Manufacture of beverages
C10	Tobacco manufactures
C11	Textiles
C12	Manufacture of wearing apparel
C13	Leather, fur, and their products
C14	Wood processing and bamboo related products
C15	Manufacture of furniture and other wood products
C11	Manufacture of paper and paper products
C17	Printing industries
C18	Manufacture of articles for cultural, activities, education, sports, arts and crafts
C19	Petroleum processing and coking
C20	Chemicals
C21	Manufacture of medicines
C22	Manufacture of chemical fibers
C23	Manufacture of rubber products
C24	Manufacture of plastic products
C25	Manufacture of non-metallic mineral products
C21	Primary Iron and steel manufacturing

C27	Primary non-ferrous metal manufacturing
C28	Manufacture of metal products
C29	Manufacture of general machinery
C30	Manufacture of special industrial machinery and equipment
C31	Manufacture of transport equipment
C32	Manufacture of electric machinery and equipment
C33	Manufacture of electronic and telecommunication equipment not elsewhere classified
C34	Manufacture of instruments, meters, other measuring equipment and office equipment
C35	Production and supply of electricity and hot water
C31	Production and supply of coal gas
C37	Production and supply of water
C38	Construction
C39	Repairing
C40	Retailing
C41	Tourism
C42	Legal advisory
C43	Financial and accounting advisory
C44	Business advisory
C45	Consultancy
C46	Real estates
C47	Food services
C48	Engineering services
C49	Transportation services
C50	Other services
C51	Agricultural Products

Note: This sectoral categorization (except the last three) is consistent with that of the Third National Industrial Census of the PRC (1995).

Aside from the above, other sector codes include, C52—software sector; C53—biological product production sector; C54; and C55—porcelains manufacture and processing sector.

The sector distribution of private enterprises also varies with the cities. In Beijing, private enterprises engage relatively more in retail sector (9.6%), construction sector (8.5%), food service sector (7.6%), other service sector (6.8%), and real estate sector (6.2%) than in other sectors. In Wenzhou, private enterprises engage more in metal product manufacturing sector (9.5%), manufacture of wearing apparel (11.4%), leather, fur and corresponding products sector (8.9%), and textile sector (6.3%). In Nanhai, an outstanding percentage of private enterprises engage in textile sector (16.2%) and metal product manufacturing sector (14.3%), followed by porcelain manufacture and processing sector (5.2%). Primary non-ferrous metal manufacturing (5.8%) is also relatively large. Among the surveyed enterprises in Shenyang, the majority is engaged in service sector and light industry sector, which belong to traditional industries. A large

amount of private enterprises is engaged in retail sector (14.2%) and food service sector (11.1%). While only a small number of private enterprises is engaged in the sectors with higher technology quality. The distribution of private enterprises in different sectors is basically balanced without high disperse degree. Among the private enterprises surveyed in Xi'an, a relatively large amount of them engage in special machine and equipment manufacturing sector (9.2%) and retail sector (7.8%). The distribution of private enterprises in different sectors is basically balanced. From these statistics, it is shown that in Nanhai and Wenzhou, where private economy started rather early, the distribution of private enterprises in different sectors is far from balanced. Private enterprises mainly focus on two or three sectors. This is partly explained by the fact that in the early stages of private economy's development, these two cities put emphasis on the development of several local advantageous sectors according to their own special circumstances; and partly because of their comparative technology advantages or their rich resources. In most cases, the reason is that the sectors are local traditional sectors. In the early stage of the growth of the economy of the PRC, these enterprises started earlier than others. Consequently, they achieved advantages by their large scales and market advantages, and acquired outstanding success while hastening the growth of the relevant sectors in local areas. Correspondingly, the marked sector structures of these cities have come into being. In Beijing, Shenyang, and Xi'an, the development of private enterprises started relatively late. Though different advantageous sectors have appeared in these cities in line with their respective circumstances, the development was not rapid in general, and the distribution of private enterprises in different sectors are comparatively balanced.

In terms of the enterprises' markets and customers, most enterprises basically rely on domestic markets for existence and development. About 54.1% of the enterprises selected domestic markets as their major markets, while 37.0% and 8.8% of the enterprises selected provincial markets and foreign markets, respectively, as their major markets. This reflects that still quite some enterprises have not broken away from the reliance on local markets and remain weak in terms of globalization. In Wenzhou and Nanhai, 17.2% and 17.7% of the enterprises, respectively, selected foreign markets as their major markets, and these proportions are relatively high. This has something to do partly with the fact that the enterprises are located at coastal areas, and from the very beginning, they have developed by the means that were closely integrated with foreign markets; and partly with the commercial traditions of these two cities. Only 1.4% of the private enterprises in Beijing selected foreign markets as their major markets; this is the lowest. A major factor for this is the big capacity of Beijing markets, and the distribution of private enterprises in different sectors. For instance, basically retail sector, service sector, and construction sector are local sectors, and this it is difficult for the enterprises in these sectors to develop foreign markets. In general, foreign markets only constitute a small proportion. Private enterprises do not make enough efforts to develop foreign markets and their own strength is far from sufficient.

As for the ownership structure, at present, the percentage of enterprises in the form of a limited liability company is the highest at 48.9%; followed by enterprises owned by an individual, at 32.9%. When private enterprises were founded, 39.7% of them were owned by an

individual, and 23.9% of them were limited liability companies. This change is shown in Table A2.4 below.

Table A2.4 Comparison between Ownership Structures of the Enterprises at Start-up Stage and Present Stage (%)

	Owned by an individual	Joint venture or partnership	Company with limited liabilities	Invested by Chinese and foreign investors	State owned	Collectively owned
Start-up stage	39.1	15.3	23.8	2.8	1.5	16.3
Present stage	32.3	9.7	48.2	4.8		3.3 (others)

The above shows that gradually as private enterprises' scales become larger and larger, private enterprises become more and more standardized. This is most obvious in Beijing. At start-up stage, only 30.1% of the private enterprises in Beijing were companies with limited liabilities, while this figure is currently as high as 69.2%. This has much to do with Beijing's special status as a political, economic, and cultural center. The opening process started rather early in coastal open cities, and private enterprises there have made rapid progress. But many private enterprises are still not standardized. At present, the proportion of private enterprises in the form of companies with limited liabilities in Nanhai and Wenzhou is low, while that of private enterprises in the form of partnerships and joint ventures is relatively high. The low managerial level of many private enterprises results in the decrease of the enterprises' competitiveness and making it difficult for them to raise their scales. At the same time, it is noteworthy that 1.5% of the private enterprises are former state-owned enterprises. This is because that in the latter half of 1990s, the PRC's state-owned enterprises underwent a series of reforms. Some were transformed into private enterprises or enterprises with individuals as controlling shareholders by means of selling-out or through other means.

In terms of the enterprises' share structures, the proportion of enterprises with individuals and enterprise legal persons as shareholders is the biggest. Among all the samples, 79.6% of the enterprises have individual shareholders, and on average, shares held by individual shareholders constitute 87.6% of all the shares. On average, the proportion of shares held by the biggest individual shareholders reaches 59% of the total shares, while 28.6% of private enterprises have enterprise legal persons as their shareholders. The shares held by enterprise legal persons constitute 61% of the total shares of the private enterprises, on average. In fact, enterprise legal persons are also private enterprises or private enterprises in disguised forms, which has much to do with the fact that in their early development, private enterprises were not officially recognized. Aside from these two types of shareholders, other shareholders are relatively rare in private enterprises. Only 3% of the private enterprises have foreign investors as shareholders.

Compared with the situation 10 years ago, the size of private enterprises has greatly increased. The median of the sample private enterprises' sales revenue for the year 2000 is eight

million and the median of the number of employees in the sample private enterprises is 86. The details are in the following table:

Table A2.5 Size of Sample Enterprises in Different Regions (Unit: 10,000 yuan)

Item	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Average
Revenue	3,518.8	1,149.4	1,711.7	4,525.0	4,506.1	3,092.9
Profits	395.1	194.4	190.3	356.3	286.2	284.6
Assets	7,030.5	2,275.4	1,802.3	2,781.5	4,088.0	3,705.9
Return on Assets (%)	5.62	8.54	10.6	12.8	7.0	7.7
Employees	346	120	114	289	261	228

Note: Revenue, profits, and assets are those for the year 2000.

The national average figure for the assets is 37,059,000 yuan. The figure for Beijing's private enterprises is the highest, reaching as high as 70,305,000 yuan, obviously larger than the figures of other cities. The figure for Xi'an's private enterprises is the lowest, being only 18,023,000 yuan. The national average sales revenue and net profits are 30,929,000 yuan and 2,846,000 yuan, respectively. From these figures, the basic development situation and regional differences are obvious. In terms of the situation in different regions, the figures of average sales revenue of the private enterprises in Wenzhou and Nanhai are the largest, this figure for private enterprises in Shenyang being the lowest. This fully reflects regional differences and the difference of the time private enterprises were founded. Wenzhou and Nanhai are the regions where private enterprises develop earliest and fastest. Some enterprises in Wenzhou are becoming famous enterprises nationwide. Some are even moving on to the global market. Though Nanhai is a county-level city, it is near Guangzhou and the front for the PRC's reform and opening up process. Therefore, the scale of private enterprises there is relatively large. In Shenyang, private enterprises began to develop rather late, and they are bound by old notions and hindered by local state-owned enterprises, so that their scale is the smallest. In terms of net profits, Beijing's private enterprises have the highest average net profits, followed by Wenzhou's and Nanhai's private enterprises; Xi'an's private enterprises have the lowest average net profits. On one side, this reflects that there are more opportunities in the Beijing market and the enterprises' profit rate is relatively high; on the other hand, this also reflects that engagement of Beijing's private enterprises in highly profitable sectors like real estate and high-tech sectors and service sectors brings relatively high average profits. Profit figures show that private enterprises in Beijing and coastal regions are relatively well run, while private enterprises in inland regions and the west have relatively poor profit-making capacity.

With regard to the size of private enterprises' average assets, regional differences are especially obvious. The highest figure is almost four times the lowest figure. The figure for Beijing's private enterprises is the highest, followed by the figures of the private enterprises in Nanhai, Wenzhou, Shenyang, and Xi'an. The average per capita assets of the sample enterprises amounts to 162,000 yuan. In Beijing the average per capita asset figure is the highest, amounting

to 203,000 yuan; this figure is the lowest in Wenzhou, at 96,000 yuan. This reflects that Beijing and Wenzhou are typical exemplary cities where capital-intensive enterprises (like real estate sector enterprises) and labor-intensive enterprises constitute the majority of the enterprises, respectively. This corresponds with well with what has been observed during the survey. In terms of assets efficiency, private enterprises' average total asset-profit ratio is 7.7%. Based on the average asset liability ratio (27.6%) of the sample enterprises, the net assets-profit ratio is calculated to be 10.6%. Considering the PRC's overall economic situation of currency deflation and relatively low interest rates in recent years, this is fairly satisfactory. (In 2000, the average net asset-income ratio of all listing companies in the PRC is 8.41%). Concerning assets efficiency, the figure for Wenzhou's private enterprises, which are labor intensive, is the highest, reaching as high as 15.6%; while the figure for those of Beijing's, which are asset concentrated, is the lowest, at only 5.6%. To some extent, this reflects that private enterprises are not superior in assets operation. The majority of private enterprises are still labor-intensive enterprises. Though the scale of the sample enterprises is a bit too large for the PRC's private enterprises, this fact is still reflected.

The average number of employees in a private enterprise is 228 persons. The education level of the employees is on the low side. The proportion of the employees with junior high school education is the largest, followed by that of the employees with senior high school education. In big cities like Beijing and Xi'an, the education level of the employees is relatively high. Compared with Nanhai and Wenzhou, the proportion of the employees with college education background is higher in Beijing and Xi'an. The education level of the employees in Wenzhou is the lowest. Some enterprises pay relatively more attention to education and training. Starting from the fact that their employees have relatively insufficient education, the management of the enterprises trains their employees and recruits personnel with high education. In this respect, it was discovered that the private enterprises' CEOs hope to employ, and always have a thirst for, those applicants with talents.

Corporate Governance and Internal Operation

In terms of internal corporate governance structure, private enterprises' highest decision-making bodies are the board of directors (31.6%), president of the company or the chairman of the board (34.4%), shareholders' meetings (12.6%), and major shareholders (13.7%). This reflects to some extent that governance structure of private enterprises is still at a relatively crude stage. Only 44% of the private enterprises have highest decision-making bodies. The major decision makers are still major shareholders (81.5%). Therefore it is obvious that private enterprises currently still run by the shareholders themselves. The separation of ownership and management has not been realized basically. This is a typical characteristic of private enterprises in the PRC at the present time. In some big cities like Beijing, some private enterprises employ professional managers without shares. In Beijing and Wenzhou, more private enterprises chose shareholders' meeting and board of directors as highest decision-making bodies, the percentages being 58.1% and 52.0%, respectively. This reflects two points: first, people in Beijing and Wenzhou have a rather strong sense of investing in enterprises, and more enterprises have shareholders' meetings and

boards of directors; second, private enterprises in Beijing and Wenzhou become standardized gradually, and management is separated from ownership step by step.

Table A2.6 Corporate Internal Governance Structure (%)

Highest decision-making body	Total	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai
Shareholders meeting	13.2	13.6	11.6	13.2	22.5	4.9
Board of directors	33.1	45.7	34.1	21.7	31.7	31.5
President of the company or the chairman of the board	36.0	27.1	39.1	45.0	29.6	39.9
Major shareholders	14.3	12.1	9.4	17.1	14.1	18.9
Others	3.5	1.4	5.8	3.1	2.1	4.9
Major decision maker	Total	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai
Major shareholders	86.9	86.9	85.4	80.2	91.6	89.7
Minor shareholders	2.7	4.4	1.5	4.0	1.4	2.2
Professional manager with no share	6.8	6.6	9.5	11.1	4.9	2.2
Other	3.5	2.2	2.9	4.8	2.1	5.9

Most of the major business decision makers are males, and 84.8% of the enterprises are run by males. This is especially so in Nanhai and Wenzhou. However this percentage is relatively lower in Beijing, Xi'an, and Shenyang, reflecting that in large cities females have more opportunities for self improvement. The average age of major business leaders is 43.8, and it does not vary obviously with the region. People around this age were born after the foundation of the PRC; underwent the culture revolution; were at their 20's after opening up; and in the early 1990s when private economy sector enjoyed rapid progress, these people were at their 30's, which are prime years for starting enterprises. People around this age have their own characteristics: able to bear hardships, industrious, prudent, diligent, greatly influenced by the opening up, comparatively open minded, and good at catching opportunities; at the same time they have received fairly favorable education, which enables them to survive in an environment as the market becomes more matured, and competition becomes more stiff and tense. Nearly one half of them (49.5%) hold a college diploma. The quality of managers in Beijing is comparatively high. Notably, there are more people among them who have received higher education; while the quality of managers in Nanhai and Wenzhou is comparatively low. Before operating private enterprises, on the whole they were farmers (27.8%), employees of state-owned enterprises (23.5%), and government officials (11.3%). Especially in Wenzhou and Nanhai, as many as 39.8% and 45.9%, respectively, of private enterprises' managers were farmers. This is because PRC's reforms were carried out first in rural areas. The 1980s was an era when township enterprises in rural areas, mainly run by farmers then, enjoyed rapid growth. In the latter half of the 1990s, many township enterprises were transformed into private enterprises. In fact, the regions where private enterprises grew most rapidly were originally rural areas, such as Wenzhou and Nanhai. With the development of the enterprises, the rural areas became urban areas. Besides, unlike people engaged in other sectors, they are not subject to many regulatory

restrictions and it is relatively easy for them to engage in the foundation and management of private enterprises. All these explain why farmers constitute the majority of the operators of private enterprises. Since most of the operators of the private enterprises are also enterprise owners, usually business or investment income is not explicitly separated from their salaries. Therefore, income of most of the operators includes enterprise revenues. The average yearly income of the operators of the sample enterprises is CNY 492,000. It is beyond doubt that they belong to high-income class in the PRC.

As for investment in production expansion in the recent 3 years, 36% of private enterprises have invested less than one million yuan in the expansion of their production; 33.4% more than one million and less than ten million yuan; and 18.5% more than ten million yuan. It is believed that other enterprises have not invested in production expansion. In the coming year, 36.9% of the enterprises plan to invest less than one million yuan; 31.4% of the enterprises plan to invest more than one million yuan and less than ten million yuan; and 14.4% of the enterprises plan to invest more than ten million yuan and less than 50 million yuan; and 5.1% of the enterprises plan to invest more than 50 million yuan to expand their production. To some extent, it is reflected that private enterprises have rather strong investment confidence at present. Studies of information in different regions show that enterprises in Beijing and Wenzhou plan to invest more funds. This indicates that, on one hand, the investment environments in these two cities are favorable, and economic growth is relatively faster; on the other hand, Beijing is a city where capital, technologies and information centered, and the assets of enterprises are the largest, and consequently the amounts of added investments are the biggest while in Wenzhou capital efficiency is the highest, and investors are willing to invest more capital there. On the whole, private enterprises are confident about the future. Most enterprises plan to expand their production.

In terms of the technology level of the products of the private enterprises, 24.6% of the enterprises have obtained a patent; among them, 42 enterprises have attained an international patent. On the other hand, 58.6% of the enterprises have not attained any patent. About 16.9% of the enterprises did not make provide information on whether they have a patent or not. The basic reason is that some enterprises have nothing to do with patents, for instance those engaged in services sectors. Meanwhile, 38.7% of the enterprises have acquired technology or product licenses—among them 33 enterprises have acquired these licenses from abroad; 39.2% of the enterprises have not acquired any licenses. Again about 22% of the enterprises did not indicate whether they have acquired these licenses, as most of them engage in sectors without actual products. In general, though private enterprises' technology accumulation has not reached a great extent, they have attained rather solid foundation for further development. A few enterprises maintain fairly strong technology capacity.

In terms of investments in research and development (R&D), 18.6% of the enterprises do not have these investments. This can be attributed to the sector characteristic, for instance, service sector has little to do with these investments. Among those who have these investments, 45.8% of the enterprises' investments are between 1% and 5% of their sales revenues; 37.4% of the enterprises' investments equal more than 5% of their sales revenues; and other enterprises'

investments are below 1% of their sales revenues. In general, private enterprises put great emphasis on investments in R&D. In Beijing, as much as 47.5% of the enterprises' investments in R&D exceed 5% of their sales revenues. This implies that enterprises in Beijing attach greater importance to their technology quality, and there are more channels for them to acquire technologies.

The average ratio of debt to assets in the sample enterprises is 27.6%. The following table shows the situation in different regions:

Table A2.7 Ratio of Debt to Assets (%)

Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Total
22.3	26.3	28.4	30.3	30.3	26.7

It is shown that the figure for Beijing's private enterprises is the lowest while the figures for Wenzhou and Nanhai are relatively high. The average is relatively low. On one hand, it shows that private enterprises are in good financial standing; on the other hand, it implies that private enterprises do not have a strong sense of running business with debts, and the development of enterprises mainly depend on capital accumulation that is rolled over, thus their growing speeds are relatively low and the scales are difficult to be enhanced. Besides, this has something to do with the fact that private enterprises are mainly labor-intensive enterprises and the entrepreneurs do not have a strong risk-taking sense. This conclusion corresponds with the interviews with the CEOs. In general, the operators of private enterprises are not willing to take big liability risks. The enterprises are prudently optimistic concerning their development in the coming 3 years. According to a five-point evaluation system, 1 indicates "become very worse" and 5 indicates "become very better"; the details are shown below:

Table A2.8 Estimation of Sales and Profits in the Next 3 Years

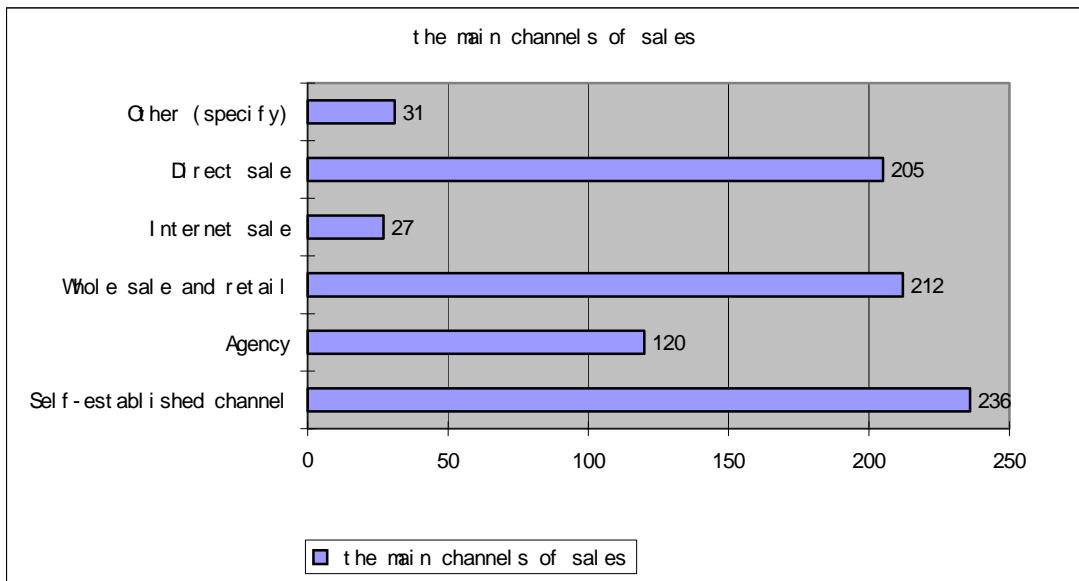
Item	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Total
Sales	4.4	4.0	4.2	4.2	3.8	4.1
Profits	4.3	3.9	4.2	4.1	3.6	4.0

As is shown above, Beijing's estimation is the most optimistic. This is largely because Beijing has just won the bidding for the Olympic games. Xi'an benefits from West Development policy. Nanhai's private enterprises' estimation, in general, is poor, which is due to two factors: first, with the local market becoming more matured and competition becoming heavier, the enterprises no longer have the favorable development opportunities that were open to them in the 1990s. At the same time, the enterprises' strength is limited, therefore they feel the pressures. Second, Nanhai's private enterprises relied heavily on the opportunities for development; it was easy for them to develop. However, these enterprises encounter changes in both domestic and foreign markets; therefore their estimation is relatively less optimistic. In the case of Wenzhou, it

is different. Wenzhou does not have any resource or geographic advantages; its development is based on hard work. There are many people originally from Wenzhou who are scattered all over the country and the world. They have never retreated before any difficulties. Therefore, in the present favorable policy environment, their estimation is comparatively optimistic.

Marketing and Promotion

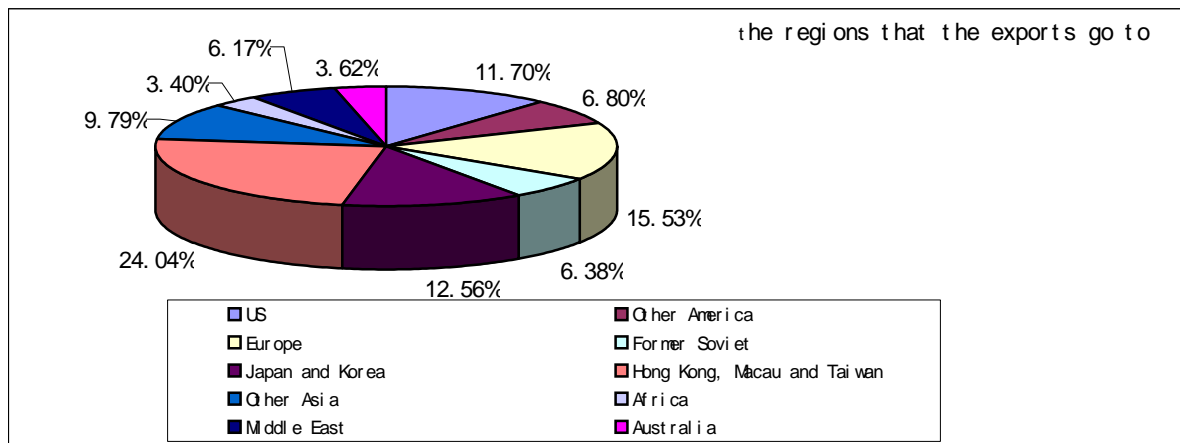
In terms of channels of sales, self-established channels, wholesale and retail, and direct sale constitute 78.6% of all the channels of sales. Self-established channels mainly refer to chain shops selling an enterprise's products exclusively. Many enterprises have more than one type of sales channel. Among all the surveyed cities, it is in Shenyang where the proportion of wholesale and retail channel is the highest (37.6%); while in Nanhai, the proportion of direct sale channel is the highest (31.8%). This is because of the difference in the types of products made in these cities. In Shenyang, mainly light industry products are produced while in Nanhai the main sectors are textile sector and metal products manufacturing sector. The proportion of Internet sale channel is small, which is largely due to the situation of domestic electronic commerce development.



Concerning exports, 11.7% of the enterprises did not indicate whether they have export and/or import licenses, which is because these enterprises almost have nothing to do with exports. This proportion is relatively large in Shenyang and Xi'an, reflecting the fact that most of the products in these two cities are sold domestically, i.e., at home. Among enterprises that need to engage in export business, 23.5% of the enterprises have export and/or import licenses while 76.5% do not. In Wenzhou, 42.1% of the enterprises have export and/or import licenses, which indicates that many products in Wenzhou are exported abroad. About 60.1% of the sample enterprises do not have export business and for 61.9% of those with export business, the exports

constitute lower than 10% of the total sales. This shows that private enterprises remain weak in export business. Comparatively speaking, Wenzhou demonstrates outstanding performance in export business, with 53% of the enterprises having export business.

Destinations of exports, in general are varied and scattered. The relatively centralized destinations of exports are Southeast Asia, constituting 24.1% of all the destinations, followed by Europe (15.1%), and Japan and Republic of Korea (12.7%). Different regions have different exports markets. The exports markets of Beijing are mainly Southeast Asia, Japan, and Republic of Korea; those of Wenzhou are mainly Europe, Southeast Asia, Japan, and Republic of Korea; those of Nanhai are Southeast Asia, Europe, and other Asian countries; those of Shenyang are mainly Japan, Republic of Korea, other Asian countries, and former Soviet Union; and those of Xi'an are mainly Southeast Asia, Europe, Japan, Republic of Korea, and North America. In general, private enterprises are not competitive enough in the international market, and their capacity for exports and earning income in foreign currency is relatively weak. The PRC's entry into the World Trade Organization will expose the private enterprises to stern unprecedented challenges.



Note: Hong Kong, China; Macau; and Taipei, China in the above figure should be replaced by Southeast Asia. This is a mistake during the translation from the English version of the questionnaire into Chinese.

Enterprises in all the surveyed regions do not attach adequate importance to brand names as intangible assets. About 15.5% of the enterprises did not indicate whether they have a self-owned brand name, largely due to the fact that the sectors of the enterprises do not have much to do with brand names. But in Xi'an, this percentage is as high as 30.7%. A reasonable explanation is that the enterprises do not attach adequate importance to brand names. Among those enterprises that have made a choice in this question, 69.3% of them have self-owned brand names while 30.7% do not. Some 18.2% of the enterprises never advertise, while 78.2% of the enterprises spend an amount equal to 5% or less of their total yearly sales on advertisement. Comparatively the enterprises in Beijing invest more in advertising. This shows that the effects of advertisement are comparatively better in regions with advanced information communication and correspondingly enterprises lay more emphasis on marketing advertisement.

With regards to certificates for the quality of the enterprises' products, 28.5% of the enterprises do not have a certificate for the quality of their products and 32.2% of the enterprises did not reply to this question. There could be a number of reasons, but it is estimated that basically these enterprises do not have quality certificates. Only 30.7% of the enterprises have an ISO9000 certificate. Concerning other certificates, they vary with the sector, but in the main, the proportions of other certificated are comparatively low. Generally speaking, private enterprises make a good show in terms of quality certification. But regional differences are rather wide. In Xi'an and Shenyang, near half of the enterprises do not have any certificate for the quality of their products, making a sharp contrast with the enterprises in Nanhai and Wenzhou. Around 45% of all the enterprises in Nanhai and Wenzhou have ISO9000 certificates. This shows that compared with enterprises in coastal open cities, inland enterprises attach far less importance to the quality of their products.

In terms of marketing strategy, 49.4% enterprises chose the answer that they would expand their markets, developing opportunities and room for development for current products, while 40.7% responded that they would make efforts to expand the market and raise their market share. The domestic and foreign markets are nearly saturated, and currently the shares of the enterprises in their markets cannot satisfy their need for survival and development. Therefore, most enterprises choose to develop new markets to increase market shares. Especially in Beijing, enterprises tend to develop new markets; while in Wenzhou, enterprises tend to raise their present market coverage. This is because private enterprises in Wenzhou are comparatively matured and have established sector predominance to some extent.

Table A2.9 Current Product Marketing Strategies of Enterprises in Different Regions (%)

	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Total
Develop new markets	57.3	48.0	47.0	45.9	50.7	49.4
Raise market share	32.2	36.2	40.3	49.3	47.2	40.7
Improve current products	29.4	42.8	30.6	39.2	56.1	39.2
A small amount of new products	23.8	20.4	26.9	32.4	27.3	25.8
Various products and industries	33.6	19.1	21.6	14.2	10.8	19.6
Globalization	0.7	0.7	3.0	5.4	5.0	2.9

Concerning the strategies of new products, the choices of enterprises in different regions differ with each other as shown above.

In general, private enterprises tend to improve current products and develop new products of a limited amount. Relatively fewer enterprises consider orientating themselves by globalization. The enterprises in Beijing are most interested in maintaining various products, partly because there are more market opportunities in Beijing. The proportion of enterprises engaging in maintaining various products is the lowest in Wenzhou and Nanhai. This implies that with private enterprises becoming more developed, there will be less private enterprises tending to maintain various products.

In terms of the enterprises' chains of supply, private enterprises and state enterprises play an important role. Among all the suppliers, as many as 34.3% of them are private enterprises, and 26.7% of them are state enterprises. Among the five surveyed cities, in regions like Nanhai and Wenzhou, the dominant position of private enterprises as enterprises' suppliers is more obvious than other regions; while in the other three cities, private enterprises and state enterprises are equally matched. Most of the suppliers are domestic enterprises. 50.8% suppliers are within the same province with their customers; 42.7% suppliers are in the rest of China other than those provinces of their customers; and only 6.5% suppliers are foreign enterprises. However, only 34.9% of the suppliers of the enterprises in Wenzhou are within the same province with their customers; and 10.7% of them are foreign enterprises, far above the national level. This implies that enterprises in Wenzhou have closer cooperation relations with foreign enterprises.

Private enterprises and state enterprises still remain to be the majority of enterprises' customers, constituting 29.14% and 21.58% of all customers of enterprises respectively. Similar to the distribution of suppliers, in Nanhai and Wenzhou, more customers of enterprises are private enterprises while in Beijing, Xi'an and Shenyang, the percentage of enterprises having private enterprises as customers is much smaller, especially in Beijing, the percentage of enterprises having state enterprises as major customers is 3.6% larger than the percentage of enterprises having private enterprises as their customers, the two percentages being 23.8% and 20.2% respectively. This has much to do with the fact that there are comparatively more large state enterprises in Beijing.

Concerning subsidiaries home and abroad, 15.5% of the enterprises have overseas subsidiaries. On average a private enterprise owns 1.67 subsidiaries home and abroad (including those in Hong Kong). 39.2% of the enterprises have domestic subsidiaries (including direct sales branches). The average number is 13.3. Among the five cities, private enterprises in Wenzhou have the most domestic and overseas subsidiaries, and the proportion of private enterprises with domestic and overseas subsidiaries is the biggest. In this respect Nanhai follows Wenzhou. The reasons lie in the fact that private enterprises have been developing for years in these two cities, and their marketing networks are relatively matured. In addition, concerning channels of sales in places of production, because comparatively there are more enterprises adopting direct sale channel and whole sale and retail channel, consequently enterprises in these two cities have comparatively more subsidiaries domestically and even overseas; while in Beijing, because the enterprises have various sales channels, consequently comparatively the enterprises own few domestic and overseas subsidiaries.

In the market share survey, local market share of the main products of the enterprises in different regions are found as follows:

Table A2.10 Local Market share of Main Products of Private Enterprises in Different Regions (%)

Market share	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Total
Below 5%	39.2	32.9	20.9	25.0	39.5	31.6
5-20%	23.1	19.7	26.1	33.8	21.0	24.7
Over 20%	20.3	23.7	26.1	27.0	17.0	22.8
Not clear	16.8	23.7	26.9	14.2	22.5	20.7

Table A2.11 Domestic Market Share of Main products of Private Enterprises in Different Regions (%)

Market share	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Total
Below 5%	51.0	48.7	33.6	45.9	48.2	45.7
5-20%	11.9	13.2	13.4	20.3	15.6	14.9
Over 20%	10.5	7.2	14.2	16.9	10.3	11.7
Not clear	25.9	30.9	38.8	16.9	25.9	27.7

Judging from the two tables above, the marketing positions of private enterprises are still rather weak. Only 22% of the enterprises have a local market share exceeding 20%, and more than 50% of the enterprises have a local market share below 5%. The situation is even worse for the domestic market share. Due to the fact that there is no competent market investigation institution and corresponding market share investigation, the domestic market share above are not free of overestimation. Comparatively speaking, the national market condition of private enterprises in Wenzhou is obviously better than private enterprises in other regions.

Resource Acquisition

We adopted a five-point system to evaluate the difficulty of resources acquisition of all kinds. Under this system, 1 represents very difficult, and 5 represents very easy. Other details are shown in the table below.

Table A2.12 Evaluation of the Difficulty of Resource Acquisition of all Kinds

Kind of Resource	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Total
Industry, Market and Technical Information	3.09	2.90	3.0	2.96	2.89	2.97
Policies and Rules Information	3.00	2.92	3.06	2.94	2.88	2.96
Technology and Equipment	3.15	3.00	3.29	3.04	2.93	3.07
Raw Material	3.46	3.30	3.42	3.38	3.41	3.39
Senior Qualified Technicians	2.66	2.73	2.74	2.57	2.55	2.65
Senior Management Personnel	2.46	2.59	2.53	2.50	2.33	2.48
Skilled Labors	2.66	3.30	3.44	3.25	3.11	3.27
Professional Consultation Service	3.31	3.20	3.31	3.30	3.05	3.23
General Management & Technical Personnel	2.92	2.85	2.85	2.84	2.73	2.84
Estimation of Acquisition Degree for Overall Resources	2.97	2.98	3.07	2.96	2.86	2.98

Note: Estimation of acquisition degree for overall resource is the arithmetic average of the above nine terms.

From the situations mentioned above, it is most difficult to acquire senior management personnel for private enterprises; this is followed by senior qualified technicians and general management and technical personnel. It is easiest relatively to acquire raw material, skilled labor, and professional consultation. This shows that the market-oriented PRC economy has passed the early period, market elements are comparatively developed, market competition that is getting stiff daily is shifting from low grade to high grade, and internal management of private enterprises is also gradually transforming from extensive operations into specialization. Therefore the private enterprises have realized profoundly the importance of senior management and technical personnel. During the interview with the CEOs we felt the state of minds of seeking eagerly after men of worth and ability of private enterprisers. At the same time, professional consultation service in the PRC has developed significantly and many enterprises of this kind regard private enterprises as their principal target of service. This has been the greatest change in the last 3 years.

From the absolute value of area difference, big cities have obvious advantage over small cities on resource acquisition. Nanhai is in the inferior position on the aspect of resource acquisition because its administrative grade is relatively low and other surrounding cities compete with it for resources. Overall, Beijing and Xi'an have relative advantage in terms of resource acquisition because of their geographical locations. The enterprises in Beijing occupy a dominant position insofar as acquisition of industry and market information, raw material, and general management and technical personnel are concerned; and that advantage is related to its status as the capital. But private enterprises should contend for resources with state-owned and foreign enterprises, so their advantage on other resources is not obvious, and they are even in the inferior position for obtaining senior management personnel. All resource aspects of Xi'an are above the average, and it has obvious advantage in acquiring technology, equipment, senior

manage personnel, and skilled labor. The reason lies in the fact that while there are many colleges and universities in Xi'an, which is a hub of communications, it has low economic level; such that it can obtain resources relatively easily. From the statistical angle, through the One-way Anova test, five sample areas only differ significantly in the three aspects of acquiring technology, equipment, skilled labor, and professional consultation service. ($\alpha = 0.05$)

The channels for gathering resource information include newspaper, magazines, television and other news media, industrial associations, professional exhibitions or expositions, their customers or suppliers, and chambers of commerce. The specific situation is shown in Table 2.13 below—the channels for each area may vary owing to various reasons, but on the whole they are in accordance. It is especially noteworthy that Internet is increasingly being utilized as a channel for acquiring information for enterprises.

Table A2.13 Main Channels of Acquiring Information for Private Enterprises

Newspaper, magazines, television, and other news media	21.35
Professional exhibitions and expositions	16.81
Industrial associations	16.67
Chamber of commerce	12.34
Other associations	1.70
Relevant departments of Government	7.20
Search on Internet	8.65
Customers or suppliers	14.26
Other	0.50

In sourcing management and technical personnel for the enterprises, people from other parts of the country account for a major proportion, especially in Nanhai, where the share has reached above 50%. Locals constitute the majority in Shenyang and Xi'an, 72.6% and 73.7% respectively. Indigents only make up 38.2% in Nanhai. So from these it can be seen that, due to the different stages of development of private enterprises, there is great difference in the employee composition. The number of employees countrywide amounts to 25% of total number of employees, and that of people laid off from state-owned enterprises 20.7%. Wenzhou and Nanhai, Xi'an and Shenyang form a sharp contrast on these two terms. The percentage share of employees countrywide in Wenzhou and Nanhai are highest, and those in Shenyang and Xi'an are lowest; on the contrary, the percentage share of the people who were laid off from state-owned enterprises in Shenyang and Xi'an are highest, but those in Wenzhou and Nanhai are lowest. This phenomenon accords exactly with the sequence of PRC reform and opening, from coastal areas to hinterlands, and from east to west. However, with the west exploitation carried out by the central Government, this phenomenon will be altered to some extent. Data on two variables, personnel from foreign countries or gathered through intermediary companies and graduates from colleges and institutes, reflect the condition of the most senior employees of the enterprises at present. Thereunto the proportion of the personnel from foreign countries in Xi'an is highest, amounting to 13.5%, and this is mostly because PRC has made the favorable policy for west exploitation, and many persons from foreign countries go to the west in succession to open up their fulfillment. The proportion of graduates in Beijing is highest (23.04%), which is in

line with its status as a center of culture; this is also the inevitable consequence of the concentration of so many colleges and universities. The personnel laid-off from the Government and departments are a special group, and they are the result of simplifying administrative structure and the reform system by the Government. Among these five cities, the share of Shenyang and Xi'an are highest, at 9.18% and 7.25%, respectively. For management personnel, they have the similar same pattern with above.

In the area of obtaining resources abroad, resources that private enterprises have obtained actively has been very limited. About 27.2% of the enterprises have acquired equipment from foreign countries; 17.8% have acquired knowledge, information, and professional service; and only 9.5% have obtained patents and technology. Total enterprises that have acquired professional personnel, capital, and trademark account for less than 5%. So, private enterprises in the PRC have got a long way to go in respect to internationalization and globalization.

Another area is the problem of shareholders of private enterprises holding some special institutions such as suppliers and customer government departments. On the whole, the shareholder structures of private enterprises are still simple (Table A2.14). These structures are decided by the history of private enterprises. Most of the private enterprises have developed from getihu (self-employed), and they cannot form comprehensive social relation and credit basis, so there are few special institutions above in the shareholders. Although this characteristic has, to some extent, limited the enterprises in acquiring more comprehensive resource, it is in favor of the fact that private enterprises can compete better in market-oriented economy according to market law and therefore achieve long-term development.

Table A2.14 The percentage of private enterprises with special shareholders

Special Shareholder	Supplier	Important Customer	Financial Institution	Government Institution	Scientific Research Institution or College
Percent of the enterprises with this kind of shareholders	11.2	11.6	3.5	2.9	4.4

With regard to the source of enterprise fund or capital, the situations of each area are indicated in the table below:

Table A2.15 Main Source of Fund or Capital for Private Enterprises in Each Area

	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Total
State-owned enterprise investment	2.8	2.0	1.5	1.4	0	1.6
Government institution investment	1.4	3.9	4.5	0.7	0	2.1
Individual or household investment	45.5	47.4	44.7	57.5	51.4	49.4
Foreign fund	5.6	5.2	2.2	4.1	6.2	4.7
Private enterprise investment	21.0	15.2	2.2	11.4	15.7	15.5
Venture capital or special technology financing	3.5	4.0	0.7	2.0	0.6	2.2
Retained earnings	55.3	34.3	41.1	30.4	49.1	41.9
Bank loan	37.1	20.4	29.1	51.4	47.3	37.2
Relative and friend loan	11.2	19.8	15.7	18.3	9.2	14.8
Enterprise internal capital	37.8	26.2	34.3	34.4	29.4	32.4

Note: The data have relative value and each data set indicates the proportion of enterprises that selected the relevant item as one of principal capital sources.

The data in the above table was obtained by totaling the first three fund sources of enterprises and shows obviously that the principal capital source of the private enterprises is individual and household savings, followed by retained earnings, bank loan, and internal capital of enterprises. Other sources are trifling. With regard to the first four items, the difference between each of the areas is great. The enterprises in Beijing depend mostly on retained earnings thus becoming the first fund source, way above individual and household savings, which points to the fact that these private enterprises were mostly established by people from other areas from nothing. Bank loan accounts for a larger proportion in both Wenzhou and Nanhai, which connects close with the fact that local private enterprises were developed relatively early. The enterprises of Shenyang and Xi'an rank bank loan as the fourth capital source, below that of enterprise internal fund. This proves that, compared to the other areas, enterprises in these two areas have more difficulty to get bank capital. Or it can be said that the more backward the areas where private enterprises are located, the more difficultly the enterprises encounter to obtain loans from banks. This degree of difficulty in bank loan acquisition is shown in the table below, which provides some useful information from another angle.

Table A2.16 Proportion of Bank Loan in Required Capital (%)

Proportion of Bank Loan in Required Capital	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Total
Within 10%	53.8	38.8	44.8	39.2	46.0	44.1
10%-50%	21.0	13.2	13.4	31.8	30.5	21.8
Above 50%	2.8	1.3	4.5	8.1	2.8	3.9
Not filled	21.7	46.1	37.3	20.9	20.7	29.8

In the above table, the blanks represent the proportion not requiring bank loans at all. It can be seen clearly that currently the bank loan only accounts for a small proportion of the

capital that private enterprises need. The “not filled” proportion for Shenyang and Xi’an are larger than that of other areas, and the proportion of the enterprises whose bank loan makes up over 10% of the capital needed are less than that of other areas, obviously. Inversely, in Wenzhou and Nanhai, the proportion of the enterprises whose bank loan makes up over 10% of the capital needed is far larger than that of other areas. All of those data show that it is easier for private enterprises in Wenzhou and Nanhai to get bank loans than those in Shenyang and Xi’an.

The data on bank loan reflects the fact that the amount of capital that private enterprises in the PRC obtain from banks is small. This can be explained by the following: first, it is difficult for private enterprises to get bank loans (this should be further analyzed); second, private enterprises are relatively conservative to borrow from banks because they are afraid of risk (this situation is common); and third, the capital of private enterprises is sufficient fundamentally, so bank loans are not needed (this situation is rare). Therefore, banks should play a more important role in promoting the development of private enterprises.

External Environment

The table below shows the views (weighted) of each area on the main problems relating to enterprise external environment:

Table A2.17 Main Problems of Market Environment (%)

Main problems	Beijing	Shenyang	Xi’an	Wenzhou	Nanhai	Total
Market competition disorder	41.6	36.2	42.3	47.1	42.6	42.0
Local protectionism	10.1	10.2	8.7	6.0	12.3	9.5
Monopolization	5.5	6.8	4.	2.4	1.7	4.1
Too many law restrictions	12.2	8.6	7.6	8.7	6.7	8.7
Fake products	17.5	20.9	19.8	16.9	18.6	18.7
Intellectual property rights protection	4.5	1.7	4.6	5.7	2.8	3.8
Taxation	6.9	13.0	10.6	11.3	13.2	11.1
Other	1.8	2.6	2.4	1.9	2.1	2.1

It can be seen from the last column that current problems are market competition disorder, fake products, and taxation. From the point of local differences, the more developed the area where the private enterprises are located, the more serious is the market competition disorder. To some extent, competition disorder is a natural outcome of free competition of private enterprises, so it is difficult to avoid this in a short time. The Government should try to have balance between developing private enterprises and maintaining normal competitive order. The main characteristic of Beijing area is that the proportion of fake products is less than that in other areas obviously, but policies and laws restrictions are more severe than those of other areas, which has close association with its special status as the capital.

The table below reflects the investigation on problems relating to the environment of private enterprises. Data in the table are the result of the five-point system in which “1” represents a completely negative situation, and “5” represents a completely optimistic situation.

Table A2.18 Investigation on Problems Relating to Private Enterprise Environment

	Beijing	Shenyang	Xi'an	Wenzhou	Nanhai	Total
If property has got protection	3.46	3.36	3.36	3.76	3.56	3.50
If contract has been protected	3.38	3.26	3.44	3.53	3.17	3.35
Function of central government to private enterprise development	3.93	3.66	3.83	3.88	3.49	3.76
Function of local government to private enterprise development	3.71	3.44	3.54	3.64	3.33	3.53
Attitude of central government to private enterprises	3.99	3.65	3.81	3.96	3.61	3.80
Attitude of local government to private enterprises	3.87	3.53	3.45	3.72	3.60	3.64
Difficulty of acquiring bank loan	2.13	2.03	2.16	3.27	2.39	2.40
Difficulty of getting financial institution loan	1.94	1.83	2.30	2.96	2.20	2.23
Whether subjected to administrative intervention	3.58	3.05	3.28	3.35	3.64	3.38
Drastic degree of market competition	1.75	2.01	2.27	1.90	1.63	1.90

We can find out from this table that there are distinct improvements in policies, laws, and administrative intervention that influence the development of private enterprises, and drastic daily market competition is the main problem currently confronted by the private enterprises.

Assets of private enterprises mostly belong to individuals, and whether it can get effective protection will influence the confidence of enterprise investment. From this table, the result is relatively optimistic, because many people think they can obtain effective protection. What is interesting is that the scores of Beijing, Xi'an and Shenyang are lower than those of Wenzhou and Nanhai. Aside from enterprises in each area having different opinions, it also reflect that private economy has not obtained necessary importance in big cities; but they have been the main body of market-oriented economy in coastal opening cities, and thus they are regarded with high esteem to some extent. In the process of enterprise transaction, commercial contracts must be involved, and when the rights and interests of the enterprises are violated, whether they can acquire effective protection is also a factor influencing enterprise development.

From investigation, the result is satisfying, among them that the average of Nanhai and Shenyang is low; so content degree is not enough. This is mostly because there is little professional consultation service in these two areas; it is difficult for the enterprises to acquire the resource. The policy of the central Government often decides the fate of an economic

institute; moreover, the policy of the central Government often decides its industrial structure of an area. As a whole, private enterprises view that the policy of the central Government plays some role in accelerating enterprise development. The enterprises of Beijing and Xi'an consider this role as stronger; this is in line with some policies of the Government recently, for example, relevant policies of developing high and new technology and favorable policies of west exploitation of Beijing. On the other hand, this indicates that the emphasis of economic development of the central Government is shifting from coastal cities to inland, and from east to west. Except for the policies of central Government, the local policy has greater influence on the enterprise development.

Countrywide enterprises generally think the function of local policy to enterprise development is between "not bad" and "has some promoting effect"; the opinions in each area obviously vary. The enterprises of Beijing and Wenzhou think that the accelerating function is greater, while those in Shenyang and Xi'an view it as nearly "not bad", so this phenomenon shows that the attention degree of local governments to private enterprises is different. Compare this with the situation 3 years ago where the both the central Government and local government paid more attention to private enterprises, and the enterprises generally think the attention degree of the central Government was high. Moreover, the score of the local governments of Beijing and Wenzhou is high to some extent, apart from the difference in the thinking modes of each area; this phenomenon indicates the governments of Beijing and Wenzhou pay more attention to private enterprises.

On economic development aspect, the drastic competition of all markets is inevitable, and each enterprise considers their market competition as drastic. The market competition of Shenyang and Xi'an is not so drastic, but the competitive atmosphere of Nanhai has approached very drastic degree. That has close relations with economic situation and industrial structure of each area, Shenyang and Xi'an opened up late, and there are not too many enterprises, simultaneously the condition of enterprises of other areas going into local market is not serious. The market of Beijing is so big that the enterprises of all areas aim at the Beijing market, so the competition is exceedingly drastic. Nanhai and Wenzhou opened up early, their industries belong to traditional industries, the enterprises are already mature, and the market capacity has not expanded but enterprises are increasing; therefore the competition is cruel. In the market, the main competitors of private enterprises are still private enterprises (49.8%), followed by state-owned enterprises (15.1%), and joint ventures (13.4%). On one hand, this indicates that private enterprises have occupied a large proportion of the market. On the other hand, it also indicates that state-owned enterprises still have relevant advantage, and although their strength has been weakened their status in the national economy can not be ignored.

At the same time, private enterprises are facing grave barrier to acquiring loan from banks and nonbank financial institutions; Wenzhou is an exception. That is connected with local special operating situation. The main reasons for the difficulty for private enterprises to obtain loan include (i) the enterprise has no loan guarantee (25.9%), (ii) the enterprise is not state-owned (22.5%), (iii) lack of personal relation (15.8%), (iv) policy restriction (15.8%), and (v) the size of the enterprise is too small (14.7%). Among these reasons, except for the reasons of

no loan guarantee and too small size, the other reasons should not really be main reasons for difficulty in obtaining loan. This shows that the support of banks to private enterprises is still not enough. More enterprises in Beijing, Xi'an, and Shenyang think the reason of loan difficulty is that the enterprise is not state-owned; but the enterprise in Nanhai and Wenzhou think it is because of no loan guarantee. In the cities opened up earlier, the function of the banks is to serve enterprises, but in inland cities, banks are still the instruments of the Government, so their financing function has not been played yet.

The situation of nonbank financial institutions is like that of banks, mostly because nonbank financial institutions in the PRC are not common, and those existing have very small scale. From the beginning of the reform and opening to the present, private enterprises have always been in the subordinate position in the national economy; state-owned enterprises represent the main body of the national economy, and by contrast, private enterprises can not obtain such favor. Moreover from the perspective of banks and nonbank financial institutions themselves, rational investment and risk avoidance are necessary. Therefore, auxiliary reform of relevant policies, perfecting credit guarantee institutions, and improvement of private enterprises' qualities should become the solutions to private enterprise financing problem in the future.

In addition, enterprises that have obtained tax preference account for 26.7% and those that do not have tax preference make up 60.6%; 12.3% of these enterprises did not answer this question. In sum, the proportion of private enterprises that obtain tax preference is extremely little compared with that of public companies, of whom more than 80% have obtained various tax preferences. But, at the same time, only 19.3% enterprises think there is restriction on entering the market in their industries; therefore, market entry is not a primal problem at present.

Besides the soft environment, enterprise external hard environment is also referred to in its survival and development. But many enterprises do not answer this question, which means that they do not regard it as a very important problem. The findings of this survey are better compared with that of the 1999 survey conducted by the International Finance Corporation. For those who answered the question "which hardware facility is the obstacle that holds up their development", by weighted average of countrywide data, we can see the land and office place, transportation and electric power supply are the major impediments. The concrete condition is shown in the table below:

From the table we can see some regional differences; for example, fuel is the third problem in Nanhai because it is far away from the main resource producing area. While transportation is the first problem in Xi'an since it is located in the northwest PRC and the transportation facility is not as convenient as in the coastal cities or in Beijing. Land is not the primary problem in Xi'an, which listed out the three primary factors. It looks like that in order to promote the development of private sector of the economy, the construction of the key infrastructure in different area according as their special characteristics should be enhanced.

Table A2.19 Infrastructure which Hindered the Development of Enterprises (%)

Type of infrastructure	Total	Shenyang	Beijing	Nanghai	Xi'an	Wenzhou
Communication facility	5.91	4.77	7.17	5.64	9.25	3.17
Transportation	21.21	21.19	23.78	13.24	24.68	22.33
Water supply	7.69	9.78	4.78	6.68	10.41	6.67
Electric power supply	17.13	18.16	13.25	17.17	17.22	19.89
Postal service	1.59	0.93	2.61	0.66	3.21	0.63
Internet	5.16	2.68	2.93	11.80	8.23	1.69
Fuel, oil plants, and coal gas	5.77	4.77	5.75	14.29	2.06	2.86
Environment and hygiene	10.03	12.34	6.62	7.99	12.34	11.01
Land and office place	25.50	25.34	33.12	22.54	12.60	31.22

A matter that is relatively concerning in this survey is about the Government controlling the imposition of illicit charges. The concrete conditions have great discrepancy countrywide and different regions, which are reflected in the high degree of separation. The factual data are in the following table:

Table A2.20 Enterprises Pay for the “illicitly charge” (latest year)

	Total	Beijing	Shenyang	Wenzhuo	Nanghai	Xi'an
Average fee (10,000CNY)	5.96	3.04	6.77	8.65	7.45	4.20
Standard Deviation	13.24	5.92	14.09	15.97	15.17	12.79

The “illicitly charge” is neither the bribe to a government official nor to some gangdom as protection fee, which mainly means multiplicity items of charge and apportion setting by some authority departments, however, have no real help. Looking at the absolute value, it is generally high in Nanghai and Wenzhou, while it is relatively less in Beijing. The private sector of economy is flourishing in Nanghai and Wenzhou, but the government protection is not enough and the decisions of putting the “illicitly charge” under control by the central Government has not always been enforced. The bosses of the private enterprises often complained during the survey. We should mention Shenyang, as the largest industry city in the northeast of China; the average “illicitly charge” unexpectedly comes to 67.7 thousand yuan. One enterprise indicated a figure of one million yuan—what a large number! Regardless of whether the figure is true or not, we can see from the average value that the government of Shenyang did not seriously put the “illicitly charge” under control or had no effect. Linked with this problem is that Shenyang did little in creating good development space for private sector of economy; both policy and the software and hardware environment have severe problems.

In summary, except for financing aspect, enterprises are generally satisfied with the external environment at present. They think the development situation of private enterprises are the same as before or a bit better in their locations. Bosses of private enterprises in Beijing and Wenzhou are satisfied with the development situation and have confidence in the future, which is

the result of enhancing soft and hard environment and efforts to create good invest environment for private enterprises in Beijing and Wenzhou.

Safety net and labor relations

Most private enterprises (89.5%) have safety protection measures in their operation fields. Most private enterprises take the employees' welfare rather seriously and have established a social security scheme (73.4%). About 77.2% of the private enterprises without labor social security scheme plan to set it up. Therefore, after over 20 years of development after the beginning of the opening up process, especially after the country has issued some relevant policies in the last 2 years, the majority of the enterprises have come to attach importance to labor protection and social security schemes. However, due to the difference of regions, this situation also varies with the region. For example, in Beijing, Wenzhou, and Nanhai, the proportions of enterprises that have taken safety protection measures are over 90%; and in Nanhai, the proportions of enterprises that have set up social security schemes are above 97.8%. This is because governments in Nanhai take this matter very seriously and raise strict requirements concerning social security schemes just after the foundation of an enterprise. In Shenyang and Xi'an, the results are not satisfactory. Even now only about 80% enterprises have taken basic safety protection measures, and in Xi'an, only about half of the enterprises have set up a social security scheme. It shows that there is almost everything but order concerning private enterprises' behavior on this aspect in these two cities, and the governments there have not carried out regular supervision sufficiently. In these enterprises, the rights and interests of the employees can not be protected as they should be. All these are what need to be improved in these cities. In addition, the results for Wenzhou concerning safety protection measures are also poor. Only 66.9% of the enterprises have established a social security scheme. This shows that behind the appearance of the booming development of private enterprises are hidden potential risks. The majority of the established social security schemes are in the form of pension and medical insurance and health services; their proportions being 41.9% and 31.8% respectively. About 18.1% of the established social security schemes are in the form of unemployment insurance. In Beijing, Xi'an, and Shenyang, a bigger proportion of social security schemes are in the form of unemployment insurance than in Nanhai and Wenzhou. This is because after the restructuring of state enterprises, a large proportion of state enterprises' employees have been laid off, and to make sure that their lives do not become too difficult, the governments have implemented unemployment insurance resolutely. At the same time, in these three cities, the governments' administration and supervision of private enterprises are rather strict and regular, therefore a bigger proportion of social security schemes are in the form of unemployment insurance. In Wenzhou and Nanhai, the employees of the enterprises are mostly workers from other places. The enterprises do not buy unemployment insurance for these workers to reduce the cost. Besides, the governments have not made relevant compulsory policies. Consequently the proportion is small. Concerning the proportions and sources of funds for social security schemes, in general, contribution from enterprises constitutes 13.94% of wages and contribution from the worker constitutes 6.44% of wages.

Nineteen percent of the enterprises have had labor disputes in the past 3 years while 81% have not. The subjects of the disputes are quite scattered. The biggest proportion of labor disputes are those about an employee's laying-of constituting 22.6% of all the labor disputes; followed by those about wages and salaries (16.1%), labor contracts (17.3%), working hours (17.3%), and compensation for injuries (12.5%); their proportions do not differ much from each other.

About 24.8% of the samples could cause pollution. In Nanhai and Wenzhou, a relatively too big proportion of the enterprises causes pollution to the environment while in Beijing the proportion is especially small, which has something to do with the Beijing government's strict limitations of polluting industries. Among the enterprises that caused pollution, on average, 49.3%, 38.1%, and 12.1% of the enterprises spend sums equal to 0-1%, 1-3%, and more than 3% of their sales on antipollution measures respectively. Comparatively, enterprises in Nanhai spend more funds on antipollution measures. On one hand, this is because the majority of the enterprises in Nanhai engage in industries like textile, ceramics, and colored metal processing, etc., which cause severe pollution; on the other hand, it reflects that local governments of Nanhai impose rather strict requirements concerning the handling of pollution.

An enterprise's contribution to social charities partly reflects the enterprise's capacity to make contributions to the society as well as the local social morale. Judging from the nationwide situation, 47.7%, 27.6%, and 8.1% of the enterprises make contribution to social charities in amounts equal to 0-1%, 1-3%, and more than 3% of their sales, respectively. Comparatively, enterprises in Beijing and Nanhai make more contribution to social charities. This has something to do with the fact that the local morale is relatively better and that the enterprises there are in better condition.

The function of the China General Chamber of Commerce

The CGCC is an organization that serves enterprises; how important it is depends on the information and service it provides. Enterprises obtain this information from all levels of industry and commerce union and guild.

Table A2.21 Information Obtained from CGCC, Local Chamber, and Industrial Association

Type of Information	Total	Beijing	Wenzhou	Nanhai	Xi'an	Shenyang
Government policy	620	173	115	111	105	115
Market information	509	116	135	89	66	103
Technology information	220	59	49	42	23	47
Financial service information	114	48	14	9	16	27
Client, supplier, and strategic partner information	189	45	57	14	27	46
Others	16	8	0	4	0	4

It is can be seen that chambers of commerce play an important role between government and enterprises as a ligament. Secondly, industry and commerce union is also an effective

channel for enterprises to achieve commercial information. Because the central government and central financial institution are located in Beijing the enterprises there can get more financial service information. Private enterprises in Wenzhou can get many marketing information and other aspects generally the same as in all regions. Services that private enterprises can get are presented in the table below:

Table A2.22 Services Obtained from CGCC, Local Chamber, and Industrial Association

Type of service	Total	Beijing	Wenzhou	Nanhai	Xi'an	Shenyang
Training	317	97	77	39	50	54
Commercial consultation service	404	102	99	78	46	80
Coordination with government	456	130	89	75	52	110
Coordination with bank and other financial institutions	102	39	16	10	15	22
Others	44	7	9	8	5	15

The most is from coordination with government, followed by commercial consultant service, and then by training. Every region has its own characteristic: Wenzhou and Nanhai provide more commercial consultant service and coordination with government is relatively less, which is related to the fact that the local government rarely intervenes in the affairs of the enterprises.

In addition to these information and service, what type of information and help do enterprises want to get? Let us look at the following three tables; these show what the enterprises want to get from CGCC, local chamber, and industrial association.

Table A2.23 Information and Help from CGCC

Type	Total	Beijing	Wenzhou	Nanhai	Shenyang	Xi'an
Government policy	164	46	25	39	17	37
Market	112	25	17	29	21	20
Technology	83	16	11	23	17	16
Financial service	38	17	3	8	5	5
Client, supplier and strategic partner	11	5	1	0	1	4
Others	37	6	6	8	5	4
Training	10	6	0	0	2	2
Commercial consultant	17	3	2	4	5	3
Coordination with government	15	9	0	3	0	3
Coordination with bank and other financial institutions	4	2	0	1	0	1

Table A2.24 Information and Help from Local Chamber

Type	Total	Beijing	Wenzhou	Nanhai	Shenyang	Xi'an
Government policy	93	28	4	30	18	13
Market	115	35	9	23	24	24
Technology	61	11	6	15	16	13
Financial service	77	24	3	24	11	15
Client, supplier and strategic partner	10	5	0	0	2	3
Others	48	22	1	7	7	11
Training	48	17	0	19	2	10
Commercial consultant	23	5	0	4	5	9
Coordination with government	53	31	2	6	4	10
Coordination with bank and other financial institution	2	0	0	1	0	1

Table A2. 25 Information and Help from Industrial Association

Type	Total	Beijing	Wenzhou	Nanhai	Shenyang	Xi'an
Government policy	21	5	1	8	5	2
Market	103	25	4	32	20	22
Technology	41	18	2	9	9	3
Financial service	25	6	1	7	5	6
Client, supplier and strategic partner	15	8	1	2	1	3
Others	32	14	3	4	5	6
Training	19	6	1	7	3	2
Commercial consultant	18	7	1	4	3	3
Coordination with government	21	4	0	14	2	1
Coordination with bank and other financial institution	1	0	0	1	0	0

In the above tables, “others” include financial guarantee, laws and regulations, various information, chance of fair competition, foreign advanced information, membership, resolving “illicitly charge”, listing in state plan, talents, union protection, Internet, etc.

Private enterprises want to get particular help according to the three different channels. From CGCC, private enterprises want to get some information and help about government policy, market, and technology. And from the local chamber, what they want are market, government policy, finance, and technology. While they do not appear, special interest to industrial association, and market and technology are still the main needs.

Although CGCC is a nonprofit organization, it can charge for some service in order to serve enterprises better. The following is the service that enterprises would pay for:

Table A2.26 Service That Private Enterprises Would Pay For

Type	Total	Beijing	Nanhai	Shenyang	Wenzhou	Xi'an
Membership	130	47	31	20	26	6
Training	253	68	51	35	55	44
Information	322	74	63	54	75	56
Commercial consultant service	159	44	23	31	29	32
Facility service	92	26	7	30	14	15
Others	15	7	2	2	1	3

The service with the highest number is still information, so that it is obvious that information is very important to enterprises. This is followed by training, which indicates that enterprises in dire need of improving staff and CGCC should reinforce efforts in this aspect. The third is commercial consultant service, followed by membership and facility service. The service provided by CGCC and local chamber are approximately the same as that of private enterprises' expectation; however, private enterprises still want to get these help, which means that the service provide by the chambers can not meet the demand of private enterprises. In addition, from the survey that private enterprises would pay for service, it is can be seen that private enterprises expects the government to offer more help to create a better external environment so that private enterprises can have rapid development.

City-sensitive Questions

During the design of the questionnaire, we specially set several questions according to the difference among the surveyed cities. For Nanhai and Wenzhou, we try to compare the changes in the replies from those in the IFC survey of 1999; we asked the respondents to answer whether local government give more concern of development of private enterprises and their estimation about future development trends. The answer is positive while Wenzhou (3.8) is more positive than Nanhai (3.4), which is in line with the conclusion we got from other parts. For Shenyang, we consider the fair competition with state enterprises, and the answer is a bit negative (2.87), which is similar to the answer of another question, "comparing with other cities, the service of local government provided to private enterprises" (2.80). And the feedback on the considerations received during the development of local economy is a little positive (3.21). For Xi'an, we designed two questions: whether get much more space after the West Development Policy carried out (2.55) and whether have advantage on recruitment competing with state enterprises (2.94). From these results, we could see the overall social environment for development of private sector in Xi'an is not perfect for the time being and the national policy need to be more specific and useful. For Beijing, we ask whether these private enterprises have tried to go public, and the answer is that 37.7% of them have tried. And about turnover rate of last year, most enterprises (more than 75%) maintain the ratio below 10%, and 43.3% even keep it under 5%. This result is more satisfactory.

Part Four Conclusive Report on Interviews with CEOs

In July 2001, a research group on PRC private economic development made a survey of the development situation and management environments of private enterprises in five cities including Beijing, Shenyang, Xi'an, Wenzhou, and Nanhai. Part of the investigation work is personal interviews with CEOs or general managers of some private enterprises. In view of these interviews, 27 questions were designed mainly related to the history and current situation of enterprise development, operational pattern of the enterprises, principles of employment, and opinions on these questions by CEOs, among others.

Sample

Interviewees were chosen randomly with no preset standards. However, samples of private mega-corporations (i.e., capital or annual sale volume exceeds 100 million yuan) in the practical course of interviewing were comparatively few at only three corporations. For this reason, conclusions mainly representative of private small and medium enterprises are discussed below.

Start up and Development of Private Enterprises

There are many similarities in the development of private enterprises in the five areas. Firstly, traditional industries such as textile, plastics, aluminum products, construction, restaurant, and furniture, constitute the absolute majority. Products of a small number of enterprises, in industries such as air conditioners and environment protection, have certain technology content. Secondly, these enterprises generally have been businesses with small capital, during their pioneering periods, from several hundreds, thousands, to tens of thousands of yuan. However, these enterprises have developed very fast, and some companies have not only sold their products to European and American markets, but have also established branch offices abroad. During the early days of development, more than 60% of enterprises have had sales volumes doubled in successive years. Thirdly, shareholding structure of these enterprises are very centralized, with at least half of enterprises having only one owner. Absolute holding rights, namely holding rights exceeding 50% of the total sum, of about 95% of enterprises are owned by one person. In the development of enterprises and policy-making aspect of daily operations, only one enterprise has engaged consultative agencies, and it is up to the owners themselves to make final decisions in other enterprises. Some enterprises are likely to consult senior management personnel to a certain extent. Fourthly, owners of enterprises received poor education generally, while those who received regular undergraduate education were about 10%; this is the main reason why most of them operate industries with low technology content. In the management of enterprises, they would rather prefer to experience instead of learn theory. As a matter of fact, after interviews were held, it was realized that, if they managed the company in accordance with certain theory, it would be theory summarized from practice. Fifthly, during the development course, these enterprises mainly depended on the accumulation of funds owned by them. The proportion of bank loans, if existing, is very small and never exceeded 10% of total assets;

among the interviewed enterprises, only one enterprise stated that its bank loans held 40% of total assets.

Of course, there are also differences among the development of private enterprises in the five areas. First, private enterprises in Nanhai and Wenzhou were founded earlier than that of other cities. In Nanhai and Wenzhou, 60% and 46.7%, respectively, of the interviewed private enterprises were founded before 1985; private enterprises in Shenyang and Xi'an were founded comparatively later, and that in Beijing the latest (80% of private enterprises in Beijing were founded after 1990).

Table 2.27 Founding time of Private Enterprises

	1980-1985	1985-1990	After1990
Beijing	1 6.7%	3 20.0%	12 80.0%
Shenyang	5 25.0%	3 15.0%	12 60.0%
Xi'an	4 23.5%	3 17.6%	10 58.8%
Wenzhou	7 46.7%	5 33.3%	3 20.0%
Nanhai	9 60.0%	4 26.7%	2 13.3%

Second, there are also distinctions among levels of education received by private entrepreneurs. Entrepreneurs from Nanhai received lower education than those from the other cities. One third of them were from production teams, with more primitive ways of capital accumulations. For example, some enterprises started business from selling ice cream, others were bricklayers. Although these entrepreneurs never received any higher education, they have extraordinary sense of the market with richer experience caused by many years of struggling, and successes and failures in market. Education received by entrepreneurs in Wenzhou, Shenyang, and Xi'an is comparatively higher than that in Nanhai; while that in Beijing is the highest.

Thirdly, from the angle of enterprises' scale, private enterprises in Nanhai have the largest scale among the interviewed enterprises, with that of Beijing and Wenzhou next. This is possibly because of the early development of enterprises in Nanhai and Wenzhou, and comparatively higher start-up point of private enterprises in Beijing.

We hold that these distinctions mentioned above are inevitable outcomes of differences in area and policy. From the angle of policy, Guangdong is the one of the first provinces to open up, with the result of lenient policies toward enterprises, in comparison with that in other areas, which are beneficial to the development of private enterprises. From the angle of area, Beijing, Shenyang and Xi'an, as old industrial bases of the PRC, is the area with large- and medium-sized state-owned enterprises. Before 1990, private enterprises were not given much importance in

these cities. However, in areas with relatively small number of state-owned enterprises, more and more people have supported their family by means of individual operation, namely through “seeking jobs on their own”. The history of the economic policies and development in these cities will inevitably be reflected in people’s thoughts and ideas. The fact is that, in the 1980s when private enterprises developed energetically in Nanhai and Wenzhou, private enterprises were regarded as units inferior to others in northern cities, and that working in state enterprise means “iron ice bowl” instead. An unchangeable standard for many people looking for their spouse is that the other party must be an employee of a state enterprises; otherwise there is no need for further discussion. The difference in thoughts and ideas extremely hinder the development of private enterprises in these areas.

Principles of Employment in Private Enterprises

The most significant difference in employment of private enterprises in comparison with other enterprises, such as state-owned enterprises and foreign-owned enterprises, is that private enterprises are more practical. They will not employ persons with excellent educational background blindly just to establish an image far removed from reality. In the employment of personnel, on the contrary, private enterprises prefer those who have received high education to those who have received low education, that is to say, if work can be done by a senior high school student or an undergraduate, they will choose the senior high school student. It is jointly decided by subjective choice and objective condition of entrepreneurs. From subjective point of view, private entrepreneurs attach more importance to the costs of hiring personnel, and high educational background always means high costs. From the objective point of view, private enterprises engage in traditional industries, and therefore there is no need for employees with high education level, and there is also no attraction for talents with excellent educational background.

Entrepreneurs of the five cities maintain basically the same attitude on employment: any individual needed by the enterprises or thought of as being beneficial to the development of enterprises will be engaged, no matter whether he is a native or a non-native. Of course, the cost factor should be considered: if choosing a non-native increases the cost, such as for accommodation, then a native will be given priority in being employed.

There is one area of difficulty being observed with great interest in private enterprises—management of family. Differences of opinions among the family members as well as fighting for power and profit will lead to problems inside the family, thus posing negative influence on the development of the enterprises; examples throughout the development history of private enterprises are too many to mention. Among the interviewed enterprises, family members of one third of the private enterprises such as spouse and children, have taken important positions in the enterprises, but about two thirds of the interviewed managers said that their lineal relatives either had not taken up posts in enterprises or not taken posts in top supervision management, and not participated in the decision making. Because of lessons drawn from failures of others perhaps, entrepreneurs now have clearer ideas of the advantages and disadvantages of family management, and some entrepreneurs resolutely oppose their relatives taking up posts in their

own enterprises. In brief, the situation in the issue of family management is better than what was expected before the survey.

As far as settling the relations between ability and morals are concerned, most entrepreneurs hold that moral character is more important than ability. Moral character can remedy defects in ability, but defects of moral character cannot be remedied by ability. For a person without basic morals, his ability can result to disaster. The more ability he has, the bigger the losses he can bring to the enterprise. Nevertheless, a small number of entrepreneurs hold that ability is more important compared to morals. Staff with poor morals can be transformed through various means into persons with both ability and morals. One entrepreneur summarizes his principle of employment as follows: if you have ability, then offer your ability; if you have no ability, then work hard; if you're a person with no ability and are not willing to work hard, then get away from my company, please!

In the assignment of senior managers, private enterprises prefer fostering and promoting those currently employed in the enterprises. Managers who are trained by enterprises are familiar with the enterprises. They are relatively stable and not ready to abandon their occupations in favor of another.

Certain problems exist in training and treatment of employees. Capital invested by private enterprises in training of employees is insufficient generally. There are three reasons: (i) insufficient investment will reduce costs; (ii) entrepreneurs think it unnecessary to train ordinary staff who are engaged for simple unskilled labor; and (iii) professional personnel are difficult to be retained in private enterprises, and a large proportion of staff is mobile. The more training staff received, the more possibilities for them to abandon their occupations in favor of another. In the treatment of employees, private enterprises in Nanhai and Beijing are better than in other cities, and it is all due to the government standard. Insurance provided by private enterprises to ordinary staff, as a whole, is far below the standards of that provided by foreign-owned and state-owned enterprises. If the private enterprises can have the choice not covering insurance, then surely they will opt not to insure. For example, some construction enterprises and other enterprises in which work is dangerous to a certain degree only cover industrial injury insurance for workers at the worksite, and no medical insurance, unemployment insurance, and endowment insurance. Some enterprises confessed that they only cover insurance for a small number of workers. If there are some problems, they will ask the insurance company for compensations by writing down their name as insured. Managerial personnel or technicians who occupy important posts in the enterprises will obtain fair guarantee, or at least endowment insurance is ensured.

Operational Way of Private Entrepreneurs

The operational environment of the private enterprises in the PRC is not so good; but private enterprises, just like grass, can still survive, develop, and show exuberant vitality. One of the important reasons for this is the operational way of entrepreneurs.

The most remarkable characteristic of private entrepreneurs is that they are good at discovering opportunities and being able to seize the opportunities. After a long time struggling

in the market, as well as paying tuition fees, these entrepreneurs become extraordinarily sensitive to the market. An entrepreneur dealing in garments and watches said, “ My information about demand and understanding of consumer preference originates from ultimate consumers, I will do what market tells me to do. Therefore it will be impossible for my products not to be sold out. Various stores also welcome my products, so I has always made collections first and then supplied the goods. There is no arrear of stock, and I never worry about account receivable.” We may take for instance that these entrepreneurs were born in the sea, so they are calm and unhurried while facing the tide of market economy. State-owned enterprises are looked after in all respects by the Government, such that they have not learned to swim in the swimming pool and will surely suffer disaster in the sea.

It is the extraordinary sense of market of private entrepreneurs that makes them more flexible in operations. If the market supply-and-demand situation or consumer preference has changed, their products will change correspondingly.

Entrepreneurs owe their success to quality and reputation, which is the most important factor, and to individual diligence and patience. Many entrepreneurs in Shenyang have mentioned interpersonal relationship, it may relate to the over-interference by the local government, and low working efficiency.

Operational Environment of Private Enterprises

1. Financing Environment

The interviewed private enterprises are mostly developed depending on accumulation of funds owned by enterprises. Are private enterprises not willing to operate on borrowings? Do private enterprises need no loans? Absolute not.

From the pioneering period of private enterprises in the beginning of reforms and opening up, to the present time when nonpublic economy is constitutionalized as an ownership pattern, financing channel of private enterprises have not taken on a new look. Firstly, policy of government has supported state-owned enterprises with the result that most banking capital flows out to state-owned enterprises. Secondly, banks have doubts toward private enterprise that has short history as well as of small size generally. Finally, banks and state-owned enterprises are all owned by the country. Failure to recover loans to state-owned enterprises will not be considered as national assets lost, but failure to recover loans to private enterprises will be considered as serious problem.

An entrepreneur told us disappointedly in the interview that he has never received a single coin of loan after 10 years contact with the National Industrial and Commercial Bank of China.

Bank credit has always been flowers added to the brocade, instead of charcoal in snowy weather. As for private enterprise, the situation is even more serious. In the early days of enterprise development, it was extraordinarily difficult for enterprises, being seriously short of capital, to obtain bank loans. Only after the enterprises have developed and grown to that of considerable size and strength were banks willing to grant loans to them. A CEO vividly

described bank loans as an umbrella made by paper, which could only be used in sunny day, and would be useless in a rainy day at all.

It is understandable for financial institutions to execute national policy and avoid risks, but there is a concealed reason for the failure of private enterprises to obtain bank loans—rent-seeking activities, i.e., corruption. In order to obtain the loan, private enterprises even need to pay rebates demanded by some chief leaders of banks, not mentioned stand treatment and dinner. Under these circumstances, the costs for enterprises to obtain loans will far exceed the level of nominal interest rate. Besides, efficiency of bank loans also can not meet the needs of private enterprises. Private enterprises can obtain a bank loan in tens of days, or even several months, but the opportunity of investment perhaps has been lost while obtaining the loan.

2. Policy Environment

All interviewed entrepreneurs generally hold that, the central government's policy toward private enterprises has been getting better, and there have been not many policies of local government toward private enterprises, the key is how to execute central policy by local government. For instance, land use fee in some areas of Nanhai has increased to some extent than before, and then some enterprises moved to other areas as the result.

On taxation, some sections of private entrepreneurs hold that taxes today are heavier than before. Some enterprises in Shenyang mentioned that various fees were overcharged. For example, an enterprise opens a hotel of medium size, but even the meteorological bureau will charge 1,000 yuan per year for its annual examination of lightning arrester.

Some entrepreneurs also hold that income tax of private enterprises should be lower than that of state-owned enterprises for the reason that they have not used money of the country and have not enjoyed policy preference. On second thought, private entrepreneurs should at least have the same tax treatment as that for state-owned enterprises. However, the fact is that state-owned enterprises will enjoy tax preference such as returning of local tax for various reasons.

Another restriction of policy is market access. There are some industries that can not be run by private entrepreneurs, but entrepreneurs admit that some industry should be open to private enterprises.

While discussing about national policy, entrepreneurs considered that some policies were not executed effectively. For instance, fake products are becoming more popular in the market in spite of repeated injunctions by the country, resulting in chaos of market order.

3. Private Enterprise and Government

Entrepreneurs generally hold that relations between government and private enterprise have been improved in comparison with the situation 3 years ago. It is due to national policy in one aspect. In the other aspect, there may be a more important factor that private enterprises made more and more contributions to the financial revenue of local government. The local economy cannot be well developed without private enterprises, and the local government has paid more and more

attention to private enterprises as a result. The development of private enterprises also resulted in the continuous expansion of entrepreneurs' local influences; many entrepreneurs became members of CPPCC or standing committee of the National People's Congress, and their relations with government officials became more harmonious.

Distinct disparity in areas also exists in the relationship between private enterprise and government. For example, the relations between an enterprise and government in Wenzhou and Nanhai are relatively simple, and interference in enterprises' affairs by the government is comparatively rare. Entrepreneurs generally do not encounter many troubles while contacting with the government. In Shenyang, complains of entrepreneurs were a little more frequent. Some entrepreneurs said that they assigned two or three person in charge of coordination and handling of matters concerning government, some entrepreneurs said that it would spend 30% to 40% of his time and energies in dealing with relations with government. Some entrepreneurs said yet that, although the policy of government was available, high-flown words were frequently used and it was still not enough for the government to deal with concrete matters.

While being asked if government has made any progress in comparison with 3 years ago, however, entrepreneurs generally gave positive reply, with a variety of dissatisfactions toward government. During the recent years, efficiency of the government has been improved, and the government has given more support to private enterprises. With the stronger measures against corruption taken by the country as well as the improvement of the honesty level of government officials, the confidence of the entrepreneurs toward government has also been enhanced.

Entrepreneurial Faith of Private Entrepreneurs

The deepest impression of the interview with the private entrepreneurs is that they are full of confidence of their own enterprises. The confidence comes from the increasing support to private enterprises by government policy, from their understanding of market and enterprises, and from experience of successes in the past.

The entrepreneurs' accurate control of market makes them more aware of what they are doing and what they are going to do. From this point of view, private entrepreneurs, as the steersmen governing the development of enterprises, have done better jobs in comparison with managers of state-owned enterprises.

With the advantage of being close to market, private enterprises are calm and unhurried while facing competition. For instance, while being asked about the impact of the PRC accession to the WTO toward their enterprises, almost all entrepreneurs held that they had the confidence to face these challenges and to seize the opportunities brought by WTO accession.

The reasons for entrepreneurs to succeed may differ, but we found out through interviews that there are at least three general characteristics, i.e. morals, ability, and responsibility. Morals refer to providing products of high quality and services of high grade in accordance with the principle of honesty and fairness; ability refers to intelligence and brains; and responsibility means proficiency, devotion, and hard work for managers of enterprises.

Many entrepreneurs attached great importance to dependable and honest behavior when they mentioned operational pattern of enterprises. In their opinions the management of

enterprises reflects the moral quality of entrepreneurs. To manage an enterprise, one should learn how to behave as a good person first.

Although there are lots of shortcomings in the operational environment of private enterprises, entrepreneurs generally hold that, with the sustained, stable development of economy in the PRC, private enterprises in the country will develop faster and the prospects of development will be brighter.

We now have a general understanding of the development of private enterprises in the PRC through interviews with CEOs of private enterprises in five cities namely Beijing, Shenyang, Xi'an and Wenzhou, and Nanhai.

Private enterprises in the PRC started late. Nanhai is located in the forward position of the PRC reforms and opening up, and merchants of Wenzhou have been famous since ancient time. Private enterprises in these two areas have developed rapidly since the 1980s in the early days of reforms and opening up, while private enterprises in other areas generally began to develop in the 1990s. During the recent several years, the operational environment of private enterprises has changed remarkably. In terms of efficiency of the government as well as the execution of policy, Nanhai has done a better job.

Although private enterprises have limited financing channels and can scarcely obtain bank loans, private enterprises have developed quite rapidly at present, partly because of the ownership superiority of private enterprises, partly because of relatively small cardinal number in the early period of development.

In comparison with state-owned enterprises, the reason for private enterprises' success is the difference in ownership. Among interviewed enterprises, the owners of private enterprises are also operators of enterprises, and interests of enterprises are also that of the enterprises—two elements are integrated completely with no problem of agent or owner vacancy existed in state-owned enterprises. With the speedy development of private enterprises, agent of enterprises may become one of the main problems faced by private enterprises. In addition, as for the product structure of private enterprises, most enterprises only deal in single products on small scale and are extremely weak in avoiding risks.

Private enterprises can develop speedily under circumstances with no superiority in capital, technology, industry, and policy, there must be some factors worthy of studying and thinking, such as their keen sense of market, their control of cost, and their devotion to work, among other things.

Part Five Survey Summary

Though the foregoing results are drawn on the basis of the analysis of the questionnaires' statistics, interviews with CEOs have also confirmed the main viewpoints. This survey about the development of private enterprises in the PRC was conducted jointly by the Asian Development Bank, China General Chamber of Commerce, and the Economics and Management College of Tsing Hua University. It was conducted for 60 days. Altogether, more than 1,000 private enterprises in five cities were investigated. A large amount of first-hand data was gathered. This

report truly reflects the present situation, existing problems, and developing trends of the private enterprises in the PRC. This survey was assisted by China General Chamber of Commerce and local chambers of commerce to a great extent. Without their efforts, this survey would not have been carried out smoothly. Here once more heartfelt thanks are proffered to them.

Annex 2a Cases

Case One: Aokang's Success and Chain Special Shops System in the Leather Shoe Industry in the People's Republic of China

Aokang Group Ltd. is one of the top hundred private enterprises nationwide with more than 300 million yuan assets in Wenzhou. It mainly engages in the manufacture and sale of men's and women's leather shoes. It has passed ISO9002 international quality system authentication. This group's precedent was Yongjia Aolin Shoes Factory founded in 1988 by the chief and CEO of Aokang Group, Mr. Wang Zhengtao. In 1995, Wenzhou municipal government approved the foundation of Aokang Group. After more than 10 years of development, this company has developed into a large-scale enterprise with a yearly output of over six million pairs of shoes, valuing over 600 million RMB. Every year it turns out over more than 100 million RMB in profit and taxation to relevant authorities. It has 74 sales branches, more than 1,000 chain special shops exclusively selling its products, and more than 800 shops in stores and special counters all over the country. It has set up offices in Italy and Holland. Among the 20 key shoe-producing enterprises all over the country, it ranks the third.

The success of Aokang is inseparable from its chain special shops managerial strategy. After the arrival of the last decade of the twentieth century, in terms of management forms in the PRC's commerce sector, a multi-polarization situation developed. Various retail types kept emerging. Large-scale stores faced decrease in profit rates and increase in losses, which are characteristics of the mature stage. In contrast, the practice of chain special shops was soon accepted by the PRC market due to the following factors: favorable reputation, high quality services, provision of authentic goods at honest prices, and easy control by manufacturers. In line with the revolution taking place in the form of retail sector, the channels of commercial circulation were reorganized. In a multi-level sales network, the profits were divided among many subjects and it was prone to severe channel conflicts. Under this system, the feedback of market information was difficult and the manufacturers had difficulties in exercising control. In addition, wholesale channels underwent shrinkage. All these forced the enterprises to transform their sales channels into a flat structure. Based on its foresight concerning the PRC market and its keen observance of the changes concerning the retail forms, Aokang began to set up branches in provinces as early as 1997. The managerial staff of the branches were directly appointed by the headquarters. In 1998, Aokang practiced sales by chain special shops, which is a brand new sales means in the PRC's leather shoe industry.

In January 1998, the first chain special shop was set up in Yongjia County, Wenzhou City. From then on, progress continued. In so short a period of 3 years, the number of chain special shops reached more than 1,000. Almost one shop was set up each day. More than 1,000 chain special shops emerged before the consumers in different provinces and cities in the PRC and convinced those consumers who used to buy competitive brand products to change brands.

What's worth special mentioning is that Aokang exercises good control of the development of the self-run shops and agent shops. Their ratio is kept as one to four. Emphasis was laid on the arrangement, location, scale, and effectiveness of its self-run shops, which represent the image of Aokang; in this way, examples are set for the agent shops, thus ensuring the success of the strategy that "every newly established Aokang chain special shop is successful; and the consolidation of one shop brings the success of many others".

On the other hand, in its sales process, Aokang pays special attention to the administration of its image and communication with consumers. In this era of information explosion, due to the fast pace of living, normal information cannot greatly impress the consumers. All of Aokang's chain special shops all over the country obey the principle that the image, brand, administration, and service shall be in accordance with uniform standards. In this way, the consumers can feel the charm of Aokang brand as a king of shoes here and there. For the fitting up of Aokang chain special shops, the uniform conspicuous format of white characters on red background is adopted. The shells inside a shop are mainly red and grey. In 1998, Aokang invited Han Lei (a pop singer) to be Aokang's image representative. The advertisement saying "Wear Aokang to march to different places" caused Aokang to become popular all over the country. Even today, though the contents of Aokang's advertisements have somewhat changed, this advertisement saying remains. Since Aokang targets the middle market sector, in these 2 years, Aokang has been "bombing" recreational television channels with high coverage all over the country. For example, Aokang has carried out propaganda activities on more than 10 satellite television channels nationwide, such as Happy 100 Program of Fujian Southeast TV Station, Happy Train Program of Shangdong Satellite TV Station, and Lucky 52 Program of Central TV Station. Usually Aokang buys the propaganda programs for a whole year. Meanwhile, the advertisements on these television stations are simplicity-orientated so that consumers can be impressed once they encounter them and a knock-out effect is achieved.

Sales promotion is a two-edged sword for Aokang in terms of marketing. In recent years, Aokang organizes one or two large-scale promotion events every year. Now if Aokang remains silent for some time, people within this industry would guess that "a storm is coming from Aokang behind the surface that the sun shines mildly and the wind flows softly". It is in 1998 that Aokang began to develop at a rapid speed. Many people did not expect that Aokang as a newcomer became a king in a short time. In 1999, Aokang set more than 2000 pairs of fake Aokang shoes seized all over the country on fire in Hangzhou Middle Village. This act caused great sensations in China's shoes industry. At that time an article carried on Economics Daily commented: "A fire twelve years ago burnt fake products made by Wenzhou people; after twelve years Wenzhou people set fire on fake products". In this event, Aokang attracted public attention and became much more famous. In May festival of 2000, Aokang carried out a large-scale promotion activity named "Valuable Consumption" within the whole Zhejiang Province. A rash for buying Aokang shoes was triggered. In such a short period as three days, its sales reached more than ten million RMB. In 2001, Talk Show of CCTV invited Aokang's CEO, Mr. Wang Zhengtao as the representative of Wenzhou shoes industry to take part in the discussion "New Shoes and Old Shoes". After the host of this program, Cui Yongyuan raised the topic that why

shoes made in Wenzhou would not say “made in Wenzhou”, Aokang held high the banner of “Made in Wenzhou” and marched to China’s first street, Nanjing Road in Shanghai, where the first chain special shop attached to a Wenzhou shoes manufacturer in the 15 March (Consumer Rights and Interests Protection Day in China) period. From then on, Aokang made smooth progress in Shanghai market. At one go Aokang opened 13 chain special shops and found its feet in Shanghai.

To exercise effective control of the final market, Aokang changed its former sales model, according to which general agents were designated to ensure its market share. Instead, it set up 29 branches on provincial level to provide for and administer the final market, and in this way, a strong vertical marketing system controlled by the manufacturer was established. Though this increased the marketing cost, it can control channels and resources more effectively. This practice ensured Aokang’s smooth development in recent years. Besides, to reduce management risks, Aokang also established a safe due payment system centered on the final market. The financial employees of the branches were directly administered by the headquarters in a uniform manner. With the agents, the institution is adopted that the goods are to be delivered upon payment. In this way, it is ensured that payment for goods are collected and the capital can circulate smoothly.

Furthermore, Aokang pays attention to strengthening its capability to capture and respond to market information and establishing its logistics distribution system. Now Aokang requires all its sales net to report their sales and market information to headquarters, which are processed by the relevant divisions of headquarters; decisions are made accordingly and sent to the sales front via newsletter, internal fax, and emails. Take the management of inventory as an example, now most manufacturers are exhausted with the question of stocks; more often, the profits are in the form of stocks at the end of the year. Aokang has been doing pretty good in this respect. Relying on the network system administered by itself and its fast response to information, on one hand, it has established a nationwide logistics distribution system to ensure the unimpeded flow of logistics; on the other hand, the transportation of goods in the south to the north and local handling of stocks are realized in a very short time.

Aokang’s journeys of marketing development as well as the prosperity of the system of chain special shops in China’s leather shoes market vividly illustrate the merits of marketing. As a new type of marketing model, the system of chain special shops does not bring about the success of a brand merely by exercising several uniform standards; it depends more on the implementation of a series of corresponding guaranteeing measures, as well as continuous creations and developments to bring new contents to the practice of sales through chain special shops.

Case 2: Shenyang Huayuan Plaza Co. Ltd

Established in 1998, Shenyang Huayuan Plaza Co. Ltd, located at Sujiatun District of Shenyang, is one of “twenty powers” of Shenyang private enterprises. Compared with the situation at the beginning, there have been great changes at Huayuan: the number of employees currently has increased to 360 from a few; in contrast with the past, assets have reached 210,000,000 yuan;

focusing on hotel service, business field has expanded to real estate development, entertainment, commerce, trade and consultation by comparison with single restaurant service originally. Huayuan has become a diversified enterprise. Nowadays, the annual turnover of Huayuan is 30,000,000, and putting into capital continually has impelled the development and expansion of Huayuan at the speed of 40% annually. Huayuan has been the private enterprise with competitiveness and high popularity in Shenyang district and Liaoning province.

To this large integrative plaza with considerable strength and scale, CCTV and many television stations of Liao Ning have reported it many times. When referring to the development of Huayuan Plaza Co. Ltd, the Chairman of the board of directors, Liu Jikun said, the success of Huayuan benefits from keeping the principle of “three clearing, three protection and two improvement” during the management process.

To three clearing, Huayuan puts forward three contents: first is to clear dirt, disorder, and deficit; second is to clear lazy, draggy, dependency, stalling, and demanding; and third is to clear the ideology of employees. Liu Jikun said, as a service industry, especially as a restaurant and entertainment service industry, regardless of hotel or guesthouse, entertainment city or plaza, being dirty, out of order and disappointing is mostly avoided to the operating environment and outside image of the enterprise. This operating environment not only restricts the consumption desire of customers, but also impresses the first enterprise image difficult to change in the customer’s mind. Enterprises of this kind cannot develop, and even the future is decrement and failure. Only providing a clean, vernal and normal consuming environment and constructing a elegant consuming atmosphere full of grade are operating method of modern plazas. At the beginning of 1997, before Huayuan opened formally, thinking of the social benefit, economic profit and the long development of the plaza, Liu Jikun put into much capital to plan reasonably the “hardware” of the plaza, fix central air conditioner and adjust the layout scheme of operating services firstly conceive. In addition, the plaza has harnessed and beautified surrounding environment. For example, the underground of the plaza is large-scale park, the first floor is supermarket district, the second floor is hotel and guesthouse and the third floor and other floors are business district, i.e. the offices of the plaza and other companies. The measures above have good function to optimize operating scene, cater to the consuming psychology of consumers, make consumption convenient, improve the working environment of employees and expand business field. Therefore the plaza appeals the attraction of local media and the general public, and obtains rich harvest on social benefit and economic profit.

Lazy, draggy, dependency, stalling, and demanding are aimed at employees. These behaviors are not to be tolerated. So if we want to eliminate these bad defects and habits fundamentally, we need to complete training system, supervision system and prompting mechanism to rule the words and deeds of the employees. Liu Jikun said, aiming at this point, the method of the plaza is as follows: all of the employees of the plaza must be trained strictly before work, especially uniform criterion of service courtesy and term and restructuring the serving image. Everyone must pass the training lessons before work. Additionally, the plaza has also established a series of relatively strict, perfect, and fair employee examination and reward system, such as the systems of attendance, outstanding achievement, prompting, and supervision.

Mr. Liu took it as an example that if an employee is late once for no reason, his bonus will be reduced by 60%, and if he has been late for three times, he will be fired. Under this very rigorous supervisory control system, the employees of Huayuan feel the pressure and restrictions on them at all times, but also feel impetus. Since the start of operations to today, Huayuan has always paid attention to the upliftment of personal quality and self-consciousness of employees, and has begun to obtain the social benefit and economic profit that the well-rounded improvement of the employees brings to enterprise image building.

Clearing the ideology of the employees is mostly to clear the outdated concepts and ideas of the employees, change their service concept, and make them form the consciousness that “the customer is first, and service is first” under market competition. Another point is to improve the morality of liking their work and dedication of the employees, and initiate the feeling of consciousness that the enterprise is the second family of the employees to strength the cohesive force. This measure is very necessary and important. Because some of the employees of Huayuan are laid-off ones of Shenyang state-owned enterprises, the change of work puts forward a new and more standard request about behavior and idea to them. Therefore by these methods and the severe request to the employees, the plaza, from the outside to the inside, from the surface to the center, from the images to the hearts of the employees, has reached uniform and perfect standard.

The “three protection” principle is to protect the legal rights and interests of the customers and employees, protect the integrative management of the plaza and protect the performance and implement of the rules and institutions of the plaza. Liu Jikun introduced, protecting the legal rights and interests of the customers is the reflection of the tenet—customers first, credit first and service first, protecting the status of the employees is to guarantee relative reward, and administrating the environment, sanitation, public security and elegant consuming circumstances surrounding the plaza is to guarantee the integrative management of the plaza. From this point, Huayuan has given consideration to the benefits of customers, employees, and the plaza. It is observed that under the wave of cut-throat competition in market-oriented economy, the benefit relations between customers, employees, and the enterprise complement each other, and they are not only the vitality of the enterprise, but also the fundamental guarantee of long development for the enterprise. After 20 years of intensive and pioneering effort, the “three guarantee “ principle is always the firm operating belief in the heart of Liu Jikun.

Liu Jikun thinks that the management of private enterprises is mostly to administer four things: employees, money, material, and information. The last three need to be administered and practiced by human beings. Man is the main body of behavior, so we can say that managing employees is the core of enterprise management. Therefore modern private enterprises should put human resources development on the relative important place. Every enterprise has its own employment principle. To Liu Jikun, “two improvement” is the reflection of his employment principle. First is continuously promoting the quality of employees during work. Second is to improve the consciousness of “four wanted, four unwanted” to senior administrators (department managers). These mean that: the managers should conceive what the chief does not think of; the managers should live up to what employees of lower level can not; the managers should put

more attention to long-term development instead of achieving present profits only; and the managers should not only care about the development of his own department, but cooperate with other departments to focus on the integrative development of the plaza. For guaranteeing the advancement and promotion of the general employees continuously, Huayuan has designed the system of employee retraining to promote eternally their service quality and business level. To the senior administrators countrywide, advertise and competitive going-to-work inside the enterprise, Huayuan has established a relatively perfect prompting mechanism including liability prompting, target prompting, glory prompting and material prompting. All of these are mental adjustor undoubtedly to the managers strictly requested.

Chairman of board of directors, Liu Jikun, can not help sighing with feeling when looking back to the 20 years of efforts: “thousands of boats across are all passing travelers, and chilliness can not be endured on highland”. Establishing a business is difficult, but safeguard the heritage is also difficult. With the expansion of the scale of the enterprise and the increase of the business, facing various daily rounds, he gradually feels his ability falling short of his wishes. As the final decision maker of the enterprise, acting on the principles of sureness, honesty, simple and making little things well done before doing great tasks, he has helped the enterprise to pass through many barriers by his experience and enthusiasm of establishing a business. Confronting the cutthroat competition and impact that nongovernmental enterprises in the present market should endure, he has shown the crisis feeling of his mind. But he is also full of confidence to the future of Huayuan.

Case 3: Private financing institution Tailong of Zhejiang province: a dinosaurian egg in shrubbery

Established in June 1993, Tailong city credit cooperative of Tai Zhou, Zhejiang, is a joint-stock financial organization under the leadership of the People's Bank of China, and at the beginning it only had seven employees and two rented rooms. Having been developing to date, it has become a medium financial corporation who has over ten billion deposit and a 21-storey intelligent building, and its economic indicator are all risk first in the whole province.

A City Credit Cooperative that picked odds and ends from refuse heaps

Lu Qiao is a commercial port with a long history, known as “no households don’t trade, and in no lanes or streets there is no commerce”. Engaging in trade obviously needs capital financing. Before Tailong was established, the capital financing of this region can only be achieved through state-owned commercial banks and civilian private loans. In the late 1980s, some pawnbrokers joined in this field, and Tailong was one of them.

Wang Jun, General Manager of Tailong City Commercial Bank, was engaged in pawn broking for 5 years, and it is this experience that let him realize the enormous commercial opportunities in self-employed laborers and private enterprises. In 1993, small- and medium-sized financial enterprises were promoted to be established to break the monopoly of state-owned commercial banks. Wang Jun grabbed this opportunity and established Tailong City

Credit Cooperative. The example effect of Yin Zuo City Credit Cooperative is another factor that helped Tailong to rise suddenly as a new force. At that time, Yin Zuo had 5,000 million deposit, but the industrial and commercial bank of Lu Qiao had only 8,000 million deposit.

General Manager, Wang Jun, joked that his City Credit Cooperative was an organization that “picked odds and ends from refuse heaps”, and it wants the unwanted thing by state-owned banks. He said: “in the mean while, small traders had no qualification to apply for loan to state-owned banks at all, much less state-owned banks had no this right. Even if it was a private business with moderate size, it could seldom correspond to the loan request of state-owned banks.” Before 1994 Lu Qiao was only a town of Huang Yan, 20,000 to 30,000 loan of state-owned banks must be examined and approved in Huang Yan. For a loan to be approved finally, three to five days was speedy. Generally speaking, it required a week at the least, and over 10 days was also normal. Still less it is hard to say whether the loan can be approved, private enterprises can not hasten the approval time.

General Manager Wang Jun has worked in the People’s Bank of China and industrial and commercial bank for a long time. He thinks: “small and medium-sized businesses have inherent defect, so they cannot correspond to the standard completely. Only from the statements we can not find practical situation, moreover some businesses have no statements at all. The key is to understand them in earnest and resolve the problem of information dissymmetry. If we can realize information symmetry, we just can maintain the asset quality and really support self-employed laborers and private businesses at the meanwhile.”

Military tactics of the human sea is main measure to resolve the problem of information dissymmetry for Tailong. There are over 300 employees, and 100 of them are credit employees. The working method of credit employees is aboriginal but effective: firstly, they will review the character of the lender. They can investigate by diversified channels, including inquiring to competitors, to neighbors, to their clients and to the friends working at tax bureau and administration for industry and commerce, and it may be said unscrupulously; secondly, credit employees will look over their booths and workshops; then go to their family to look at the house and investigate the use of the loan. After the loan, credit employees will continue to observe the keeping-faith condition of lenders. Once Credit Cooperative confirms lenders, a loan can be finished in five minutes.

It is this aboriginal credit method that makes Tailong maintain enviable asset quality; the rate of bad asset of Tailong is 2.90% to June 30 this year (2002). Wang Jun said: if we had no good asset quality, City Credit Cooperative with no governmental background is afraid to exist.

Tailong is fit for small clients

Resolving the problem of loan difficulty of private businesses is only portion of the financial services that Tailong provides. If City Credit Cooperative doesn’t serve people truly, will common people deposit their money in cooperative? Wang Jun said: financial service is third industry naturally, is to offer service, so it should do well in service, or it has no need and possibility to exist. Under this guideline, Tailong has had one-thirds of total deposit occurred in Luqiao area.

Cost for being worthy of trust

For making up the shortcoming between state-owned commercial banks and building the image worthy of trust in the hearts of the people, Tailong has built a 21-storey Tailong building. Except for a few floors occupied by Tailong City Credit Cooperative in the same building, many floors are still empty, and there are few companies besides Ping An Insurance. When Wang Jun was asked of the reason for building the Tailong mansion, he said: “The reason that we made effort to build Tailong mansion at that time is to structure a image worthy of trust. The status of private financial organizations in the people’s heart needs a period to be established and cultivated. The process of obtaining ‘understanding, trust, and support’ is lengthy, tortuous and full of frustrations.”

Most of the deposit of Tailong is current deposit, and fixed-term deposit is small. According to their definition, the deposits for the future of old men and women are generally in state-owned banks. Wang Jun said, compared with the credit cooperative, clients still believe that state-owned banks have more protection, so our fixed-term deposit is small. But to many self-employed laborers and private businessmen, they should choose Tailong if they prefer better service, therefore the nature of attracting current deposit is the service of Tailong.

Even if the credit cooperative can provide better service, because of its descent, when there is a sign of disturbance or trouble, the psychical line of defense of people whether private financial organizations are worth trusting will become very weak. On 14 September, the situation that Wang Jun went to Commission for Disciplinary Inspection of Zhejiang to verify the case, in which General Manager of China general merchandise city is involved, gave rise to adverse rumors to Tailong. At four o’clock that afternoon, the phenomenon of panic bank withdrawals happened in Tailong. Although at last Tailong passed this crisis, Wang Jun still has a lingering fear until today about thinking of this danger. The problem that the anti-risk ability of City Credit Cooperative has deficiency has been the bottleneck to restrict its development.

Where is the future?

Facing up to this hardship, Tailong begins to think over its latter-day road. At present, Yin Zuo City Credit Cooperative which has the same status with Tailong City Credit Cooperative in Tai Zhou, has decided to join in Tai Zhou City Commercial Bank in preparation. Yin Zuo is core, other City Credit Cooperative also join in establishment, and it will appear publicly at the end of the year. But Tailong chooses to be independent. The independence in mind and action of Tailong has experienced trials in the incident of September, so where Tailong will go in future, to this problem Wang Jun feels obviously pressure. Wang Jun said, he has no unreasonable hope to establish private bank. To establish private bank, besides feasibility study at company layer, we should understand the national conditions of financial industry in China. We should let the government believe, this practice can resolve problems and has no risk. We will let many experts sum up the experience and lessons of Tailong to design a plan and carry it out, and at the same time in practice we will continue to analyze and sum up. So central bank is happy: there are so

many experts helping and supervising us, why not go ahead with it? We don't need the license or the "bank" name, and we only want to give full play to our function. It is enough. I don't want to be well known, and I only want to continue to operate Tailong well.

Confronting the escape for Tailong, many experts put forward their opinions. According to Prof. Shi Jinchuan, associate president of Management School of Zhejiang University, the escape for Tailong is to be reformed into small-sized or regional shareholding commercial bank or community bank serving local economy. Tailong should have its choice; at least we should conduct experiments in Tailong. Some officials of Lu Qiao District Government think that Tailong should be purchased by shareholding commercial banks such as Shanghai Pu Dong Development Bank or join in Tai Zhou City Commercial Bank. But most people think, whether Tailong succeeds or fails, its contribution to the PRC financial reform is important. Under this bad circumstances and existing in cracks, Tailong can develop to this extent and that is a great pioneering work itself.

Case 4: En'wei Appeals for Legal Protection

En'wei Group in Chengdu is one of the most famous private enterprises nationwide. Since its foundation by eight farming households with less than 100,000 RMB, it has, due to the extraordinarily painstaking managerial efforts made by its chief director Xue Yongxin, developed into a large scale high tech multinational group enterprise, engaging in scientific researches, production and trade at the same time, with pharmacy as its core business. It has tens of daughter companies and branches nationwide, with fixed assets and flowing assets amounting to 500 million RMB, and intangible assets amounting to one billion RMB. Its accumulative total taxes are over 200 million RMB, and its contributions to charities reach as high as 140 million RMB. Every year it buys Chinese medicinal herbs of more than 50 million RMB as raw materials. Its direct and indirect employees total over 200 thousand. En'wei has become one of the top large-scale enterprises in China and won more than 60 prizes including the prize of "Excellent Star Enterprise in China".

However, the pioneering journey that En'wei has covered under the leadership of Mr. Xue Yongxin is one paved with bitterness; and its path of development is also a rugged and zigzag one.

Difficult Start with Hardships

Before founding En'wei, Xue Yongxin was engaged in trade of timber. However, due to the instability of state policies and the revocation of business licenses by relevant authorities under some pretexts, his businesses went bankrupt twice. Consequently, Mr. Xue Yongxin was interrogated in police institutions. In 1989, Xue's invention Jieryin Cleanser Preparation was officially approved as a medicine to be used externally. From then on, his enterprise began to make profits. However, state policies fluctuated at the time. Sometimes it was legal to run a township enterprise, and sometimes it was not. As a township enterprise jointly founded by eight farming households, En'wei existed in a unfavorable environment. In 1988, companies were

rectified nationwide. En'wei was once designated as one to be rectified. The reason was that an enterprise could be counted as a collective enterprise only if a collective organization on town, village or group level is involved in it. Therefore, from August 1988 to April 1990, the enterprise was in an illegal status. At that time, En'wei had a rather hard managerial environment, which resulted in its hampered growth.

Severe Violations of Rights by Fake Products

Xue Yongxin succeeded in the invention of Jieeyin Cleanser Preparation on the basis of Tao medical secret recipes. It had passed a medicine appraisal and a production license was given for it. Due to its excellent curing effects and high quality, Jieeyin Cleanser Preparation sold well all over the country. However, in 1991, according to Information of Wuxi Municipality of Jiangsu Province submitted by Wuxi municipal government to State Council, Jieeyin Cleanser Preparation should be responsible for the harms done to patients by fake Jieeyin Cleanser Preparation. State Council was requested to outlaw Jieeyin Cleanser Preparation. When En'wei became informed of this situation, it promptly notified the provincial government, and the provincial government handled the matter seriously. When the fake product manufacturer was caught, the injustice to En'wei was cleared. But it had suffered great losses.

Once En'wei trusted two researchers in Chongqing Third Military Medicine University with Jieeyin's pharmacological and toxicological experiments. Unexpectedly, the two persons stole part of the technologies of Jieeyin, pretended to be the inventors of Jieeyin, transferred incomplete Jieeyin technologies grasped by them, and at the same time libeled En'wei. Afterwards, products like "Songshi Jieeyin", "Aiqiu Brand Jieeyin Cleanser Preparation" appeared in the market. The colors and shapes of the bottles of these products were very similar to "Jieeyin Cleanser Preparation" produced by En'wei. En'wei had made complaints about those fake products with industry and commerce authorities without satisfactory effects. What's more, these fake products were even approved by Guangdong Provincial Medical Authority. Due to local protectionism and the influence of its brand name's violation, En'wei suffered more than 100 million RMB financial losses in a relatively long period. All these have brought about severe negative impacts on En'wei's reputation and image.

Joint Investment Dispute with Two Adjudications

In August 1990, Chengdu En'wei Group and Hong Kong Shihengyanghang (Shiheng) founded a joint investment venture. The total investment was 4 million RMB and the two sides' investment ration was three to one. Seven days after it remitted 1,500,000 Hong Kong dollars, Shiheng broke the contract and withdrew 1,400,000 Hong Kong dollars and transferred the sum to Hong Kong. Thus a joint venture dispute was caused.

China International Economic and Trade Arbitration Committee(ETAC) tried En'wei and Shiheng's joint investment dispute for two years. In the adjudication, it was decided that the foreign party withdrew the registered investment; the investment withdrawn by the foreign party was not counted as an investment; the joint venture contract shall be terminated; and the

accounts shall be settled in accordance with relevant laws. However, Shiheng was not content with this adjudication and made every effort to hinder the settlement of the accounts. Meanwhile it applied to ETAC for a second arbitration and the Committee even accepted the application and executed jurisdiction without necessary legal basis. In February 1998, the ETAC made a completely opposite adjudication: it adjudicated the foreign party's withdrawal of investment as the Chinese party's withdrawal of investment, it adjudicated that the Chinese party shall pay 100 million RMB as damages to the foreign party, and the valid term of the joint venture was extended to 2004. Having taken 12 million RMB as profits, Shiheng should still take near 200 million RMB away. Facing such a brutal strike, En'wei submitted an application for revocation of the adjudication, but the Supreme Court has not responded even in 2001.

Wrong in En'Wei's Taxation Case Hard to Be Undone

In 1998, State Taxation General Bureau made public En'wei's taxation case as one of the three big taxation cases nationwide. It was a shock all over the country and the enterprise was on the brink of bankruptcy. Its production, management and reputation were fatally harmed. The nature of En'wei's taxation case was that the taxation authorities took back the taxation preferences (totaling more than 100 million) that were formerly approved when En'wei invested jointly with two foreign entities at different times.

En'wei carried out the two joint investments with the same place, the same facilities and the same product. This is due to the fact that in the first joint investment, when the foreign party withdrew its investment and broke the contract, En'wei as the Chinese party reported the matter to the government for investigation in a legal manner. Under these circumstances, the government approved of En'wei's lawful foundation of the second joint investment enterprise. Though the arrival of the capital from the foreign party took place 18 months later as contracted, the two-year time limit for the input of registered capital was not violated. Therefore a sanction was out of the question. There shall be no such a thing as the taxation authorities' retraction of taxation preferences. Consequently, the sanction executed by taxation authorities is not only ultra vires, but also against the law.

Damages by Villainies Difficult to be Realized

The police had detained Rong Jinming, the person who notified that En'wei engaged in "taxation evasions", for six months out of suspicion of anti-revolutionary acts. After that he was given a position in En'wei. When he found his feet in En'wei, Rong Jinming dreamed of a political career again. He exploited his interests in En'wei through all kinds of means and built his financial basis. He grasped a chance to cause En'wei to agree to solely invest to set up Beijing En'wei Women and Children's Health Products Joint Company in Beijing, which became his basis. Rong spent lots of profits of this company on building relations and as bribes so as to weave his "relation net" and lead a wasteful life.

When En'wei discovered Rong's acts, it criticized and instructed him. But Rong stuck to his wrong ideas and went completely against the motto of "Serve the society and Benefit the

Mankind”. When En’wei requested him to submit authentic financial report forms, Rong thought that his acts had fallen through and become exposed, and then he began to libel En’wei, using his relations and favorable circumstances in Beijing.

In the several years, Rong illegally embezzled lots of the enterprise’s assets, totaling over 20 million RMB. He willfully started rumors to libel En’wei and caused disorders. What’s more, he also slandered En’wei’s legal representative personally. All these resulted in severe harms for the En’wei’s development. However, the several reports made by En’wei in these years were hindered by Rong Jinming’s protection net. In 2000, Rong Jinming’s embezzlement and bribery case was accepted and investigated, but due to strong interferences, even now law-enforcing authorities are unable to take legal measures against Rong Jinming and Beijing En’wei Company.

The hardships encountered on En’wei’s journey of development forces its chief director, Mr. Xue Yongxin, to appeal as follows: “Like all private enterprises of our country, En’wei company has grown in the favorable environment created by the Party’s opening and reforming policies. Just because of this, they remind themselves to serve the nation and the people; even in tough circumstances, they try their best and struggle indomitably to make contributions to the society. To be up to the greatness of the epoch, to bring our nation’s national economy to the world’s middle developed countries’ level, and to further enhance the comprehensive national strength, our government should adhere to ‘Rule of Law’ strategy and take comprehensive measures to strengthen the legal protection of non state-owned economies, so that private enterprises can grow in more healthy and favorable circumstances and make greater contributions to the whole national economy!”

Case 5: UFSOFT (User’s Friend)—A Private Enterprise that Breaks Record of Stock Market

UFSOFT CO. LTD (stock abbreviation: “UFSOFT”; stock code: 600588) is a high-tech enterprise located in ZhongGuanCun Technology Area of Beijing. Since its establishment in 1988, UFSOFT has been endeavoring to develop and promote the self-owned property right software. It has mainly been engaged in the R&D, Sales and Services on Business Management Software and other Enterprise Management Applications Software. Now UFSOFT has become the biggest independent software vendor (ISV) and the biggest accounting and business management software provider in the PRC, as well as the pillar of national software industry in the country.

The Products of UFSOFT have the most comprehensive range in the area of accounting and enterprise management applications in the PRC. It is the first and sole corporation whose all-four accounting software product versions have passed the examination by the Ministry of Finance, and was recommended to be used nationwide in written documents by the National Scientific and Technological Ministry. For 5 years, it was consistently entered in the program’s list of Torch Projects on national level and Beijing regional level from 1996 to 2000. And from 1995 to 1999, it was awarded as “the best software product in China”. From 1997 to 2000, it was also appraised highly as “the key new product on national level”. Moreover, the brand of

UFSOFT was awarded as “the first potential trademark position” among the PRC enterprise applications software.

UFSOFT is the first software provider to pass the ISO9001 and ISO9002 Authentication for International Quality Control System in China and has achieved Level 2 of CMM, software process improvement appraisal. The UFSOFT acts as a mainstay in national Torch Project for industry bases, and was recognized firstly by the Property Right Office the State of Council as the national property right protection experimental unit and the key supported enterprise by Beijing municipal administration.

The UFSOFT has owned an outstanding software developer workforce, had a complete management software applications assembly line, and has established a national software sales and service network. The UFSOFT Software Research & Development Center is currently the biggest Enterprise Management Applications Research & Development structure, UFSOFT held the sole Post-doctoral station of enterprise application software.

The mission of UFSOFT is “developing national software industry, promoting China’s management modernization”; the purpose is “sincere cooperation with users, being reliable friend of users”; the principle operational pattern is “developing the company into one of the most valuable enterprises in China by means of bringing value to customers, bringing increment of value to shareholders, bringing realization of value to staffs”. Adhering to the long-term interests, UFSOFT develops jointly with users, partners, staffs, community, industry and society. It has always kept pace with the times by means of sustained innovations, and it has chosen the right market points, developed and grown continuously in competition in accordance with law of market.

From the initial “service agency”, following “shareholding company”, to “listed company” today, UFSOFT finds out a way of software industry development full of Chinese characters in aspect of appropriate scale of operation and industrialized development. From the establishment to the present, the company has experienced three main periods of development. The first period is from the establishment in 1988 to the amalgamation into group in 1995, the company has followed a way of commercialization and specialization. The company has taken software making as its major operational business, and tried hard to establish its own brands, thus made the company’s first step of development. The second period is from the establishment of group in 1995 to the establishment of shareholding company limited. The company has followed the way of industrialization on the basis of commercialization and specialization, and put forward the aim of establishing a large-scale software enterprise of international level. The third period is successful listing after elaborate preparations this year.

Stock ownership represents the advanced operational and managerial pattern and mode. After several years of accumulation, in order to further expand the business, to promote the development of the company, and to meet the needs of market economy, UFSOFT raised float shares on 4 April 2001, and formally listed in Shanghai Stock Exchange on 18 May 2001. UFSOFT issued a total of 25 million yuan common stock going public to the society by means of network pricing, the nominal price is 1.00 yuan, price-earnings ratio is 64.35, issuing price is 36.68 yuan per share, issuing cost is 29,488,500 yuan, lot rate is 0.0038%, financing capital per

share is 35.5000 yuan, and total financing capital is 887,511,500 yuan, total capital shares of issuer before issuing is 75 million shares, and that of issuer after successful issuing is 100 million. Main underwriter is Hai Tong Securities, pattern of underwriting is stand-by underwriting, and Guotai Junan Securities is the introducer. Target of issuing is domestic natural person and legal person (not counting buyers forbidden by laws and regulations) who hold stock accounts of Shanghai Stock Exchange.

Among the total capital shares of UFSOFT (600588), 100 million shares, there are 25 million circulative A shares, not for allotment. Interim period returns per share is 0.29 yuan in 2001, net assets-income ratio is 2.582%, returns per share deducted by non-operational profits and loss is 0.3 yuan, operational cash-flow per share is 0.33 yuan, net assets per share is 10.21 yuan, major operational business income is 133,353,300 yuan, net assets per share after adjustment is 10.61 yuan, net profit is 29,136,400 yuan.

The listing of UFSOFT is the important news in the PRC stock market in 2001. Man of the hour is CEO of UFSOFT, Wang Wenjing, 37 years old, comes from Shangrao City, Jiangxi Province. He established UFSOFT on 50 thousand yuan loans in 1988, and is now one of the most excellent private entrepreneur—also one of Chinese Fortune 50 persons. On the day of listing, opening price of UFSOFT is 76 yuan, and maximum price reach 100 yuan, and closing price is 92 yuan. According to the closing price, Wang Wenjing, with 55.20 million corporate shares indirectly held by him, has a fortune of 5 billion yuan. It is UFSOFT, a high-tech private enterprise, that set several records of the PRC stock market: UFSOFT is the first issuing and listing stock adopted authorizing system, stock of the highest issuing price, the first share that exceed 100 yuan per share after Shanghai Stock Exchange's stock-split, new share of the highest opening price. Even in the end of 2001 when the whole stock market is in the depression, the stock price still remained a high level of 50 yuan.

UFSOFT now has a registered capital exceeding 100 million yuan, and after several times of incremental capital, the company has shown good development trends and increasingly growing strength. In comparison with the speedy development in the past few years, UFSOFT has come into a relatively stable period of development in the first half of 2001. The company has continued to put forward software of upgraded edition in the area of accounting software, and extended ranges of products to medium and high level, with sales volume relatively decreasing instead. In the first half of the year, sales volume of management software increases by 800%, and the proportion of it to major operational business income jumps from 5.5% of the same period last year to 44%. It becomes the primary impetus to the company's profits, and indicates that it has been transformed from pure accounting management software to comprehensive management software of enterprise. We should take notice that the income from tax reimbursement of added value tax has increased by a wide margin to 11.34 million yuan, and hold relatively large proportion in interests. Besides, the company has expanded sales network nationwide extensively with the result of expense level increasing to some extent, but it set sound basis for future development of the company.

After 10 of years of effort, UFSOFT has made great achievements: First, in terms of entire industrial scale, UFSOFT ranked first according to survey made by CCDD last year.

Second, in terms of the company's structural scale, the company has over 1,000 staff members, among them are 300 full-time research and development (R&D) personnel, the largest number in the management software industry. Third, the pure accounting management software has been transformed into accounting and enterprise management software, which is geared to the needs of enterprise management, and its products have formed several series. In aspect of industrial base construction, the company has constructed an industrial base, which is the largest in the industry, with office area of 10,000 square meters. Fourth, the company has established perfect, large-scale marketing and services network nationwide, which is also the largest in the field of commercial software industry. Fifth, in aspect of the construction of industrial level, the company has popularized ISO9001 Authentication in software R&D in 1996, and become the first domestic software provider to pass the ISO9001 Authentication in 1997, the software services system passed the ISO9002 Authentication in 1999. Sixth, UFSOFT accounting software has been the first in accounting software market for 10 years successively, with users exceeding 200,000.

At present, UFSOFT has drawn the general objective of "becoming the largest enterprise applications software and services provider in the PRC market with international competitive ability in 2005". According to the company's plan, the company's software sales income will reach 2.5 billion yuan in 2005, and the brand "User's Friend" will become the first brand of Chinese enterprise (applications) software. The output value will exceed 10 billion in 2010. UFSOFT's chairman of the board, Mr. Wang Wenjing, describes the future of UFSOFT as follows, "There's long way to go with great challenges, but we are determined to go courageously. The future of UFSOFT will be better!"

Annex 2b Enterprise Questionnaire

Dear Sir or Madam:

Thanks for your help in this investigation! Please offer us the first-hand information and it is very valuable to us. We commit to keep secret for you.

In the following questionnaire, please write a circle on your choices or file your answers on the line.

(The unit of amount: RMB 10 thousands)

I. Basic information about the firm

1 When was your firm established?

2 The ownership of your firm at the time of start up:

- 1) Individually owned (including jointly owned by family members) ()
- 2) Partnership ()
- 3) Collectively owned (including Township or village-owned) ()
- 4) Limited liabilities ()
- 5) State owned ()
- 6) Joint venture with foreign companies ()

3 The current ownership of your firm:

- 1) Individually owned (including jointly owned by family members) ()
- 2) Partnership ()
- 3) Limited liabilities ()
- 4) Joint venture with foreign companies ()
- 5) Other non-state owned enterprises that are not covered under 1) - 4) (please specify) ()

4 What is the structure of the current stock shares in your firm (in percent):

- 1) Shares of all the individuals () %
of which, the biggest one () %
- 2) Shares of the legal entity of the firm () %
- 3) Shares of the central government () %
- 4) Shares of the local government () %
- 5) Shares of the collective () %
- 6) Shares of other enterprises () %
- 7) Shares of financial institutions (banks, investment & trust companies) () %

8) Shares of foreign investors (%)

5 Leading products or services of your firm (name two):

6 What is your industry or service sector (see the Annex for classification. List)?

7 Sales revenue in the past three years:

1998

1999

2000

8 Net profits in the past three years:

1998

1999

2000

9 Share of your products or services:

In your province

Rest of China

Overseas

10 What is the total employment in your firm? What is the share of the following employees?

1) With elementary education (%)

2) With middle school education (%)

3) With high school education (%)

4) With vocational school education (%)

5) With two year college education (%)

6) With college education (%)

7) With master degree or above (%)

8) With foreign education (%)

11 What were the gross assets of your firm in the past three years?

1998

1999

2000

II. Corporate Governance and internal operation

12 The highest decision making body in your firm:

Shareholders Meeting

Board of Directors

President of the company or the Chairman of the Board

Major shareholders

Other (specify)

13 The main decision maker on the operation of the your company is:

Major shareholders

Minor shareholders

Professional Manager with no shares

Other (specify)

14 The personal profile of the main decision maker of your firm:

14.1 Age

14.2 Sex

14.3 Education level

14.4 Annual income

14.4 Profession before joining the private enterprise

Military

Teacher

Manager of a foreign-owned company

Government official

Employee of a state-owned enterprise

Manager of a state-owned enterprise

Student

Overseas student

Overseas Chinese

Other

15 Total funds invested in the expansion of production in the past three years:

1 million or less

1-10 million

11-50 million

50 million or more

16 Total investment planned for the next year's production:

1 million or less

1-10 million

11-50 million

50 million or more

17 What is the annual investment in the development of new products and processes in percent of your sales revenue?

1% or less

1-5%

5% or more

18 Has your firm obtained patents? Yes___ No___ If yes,

How many from Chinese sources?

How many from foreign sources

19 Has your firm obtained licenses for use of technology or products? Yes___ No___ If yes,

How many from Chinese sources?

How many from foreign sources

20 What is the ratio of debt in percent of gross assets?

21 What are your estimates of profits in the next three years in comparison with the current one?

Worse

Slightly worse

Basically same

Slightly better

Better

22 What are your estimates of sales revenue in the next three years in comparison with the current one?

Worse

Slightly worse

Basically same

Slightly better

Better

III. Market

23 What are the main channels of sales

Self-established channel (chain store, special store)

Agency (including foreign trade companies)

Whole sale and retail

Internet sale

Direct sale

Other (specify)

24 Does your firm have export and/or import licenses? Yes___ No___

25 What is the percentage of exports in the total sales?

10% or less

10-50%

50% or more

26 What are the main destinations of your exports (select 3)?

US

Other America

Europe

Former Soviet Union

Japan and Korea

Hong Kong, Macau and Taiwan

Other Asia

Africa

Middle East

Australia

27 Does your firm own its own brand name? Yes___ No___

28 What is the annual investment in marketing advertisement as percent of total sales?

Up to 5%

5-10%

10% or more

29 What are the certificates for the quality of your firm's products?

ISO9000

UL

Great Wall

CE

GS

None

Other (explain)

30 What is your firm's marketing strategy in the future for your current products?

Expand market for current products without introducing new products so as to avoid risks

Expand market for current products and introduce limited new products on pilot basis

31 What is your firm's marketing strategy in the future for new products?

Expand market by developing new products in large scale in the same product line

Expand market by developing different products in multiple industrial sectors

Globalization: globalize production and sales

Other (specify)

32 Who are the suppliers of your firm (list up to three)?

State enterprises

Stock listing companies

Private enterprises

Joint ventures of domestic and foreign companies

Totally foreign-owned companies

Foreign companies

Government and its sub-agencies

College or academic research institutions

33 Where are your three main suppliers located?

Within the province

Rest of China

Foreign

34 How many subsidiaries does your firm own overseas?

35 How many subsidiaries does your firm own domestically?

36 What shares of your products are sold in:

The local market

0-5%

5-20%

20% or more

The national market:

1) 0-5%

2) 5-20%

20% or more

IV. Acquisition of resources

37 Access to information about products of the same line, the market and technology

Very difficult

Relatively difficult

Neutral

Relatively easy

Very easy

38 Access to information about policies and regulations of the national and local governments:

Very difficult

Relatively difficult

Neutral

Relatively easy

Very easy

39 Access to relevant technology and equipment

Very difficult

Relatively difficult

Neutral

Relatively easy

Very easy

40 Access to relevant raw materials

Very difficult

Relatively difficult

Neutral

Relatively easy

Very easy

41 Access to persons with high level technical skills

Very difficult

Relatively difficult

Neutral

Relatively easy

Very easy

42 Access to persons with high level managerial skills

Very difficult

Relatively difficult

Neutral

Relatively easy

Very easy

43 Access to skilled labor

Very difficult

Relatively difficult

Neutral

Relatively easy

Very easy

44 Access to various professional advisory services, such as marketing advertisement, financial consultancy, and legal advisory

Very difficult

Relatively difficult

Neutral

Relatively easy

Very easy

45 Access to training, such as managerial, technology, IT, etc.

Very difficult

Relatively difficult

Neutral

Relatively easy

Very easy

46 What are the main channels for obtaining information about No. 37-45 (select three)?

Newspaper, magazine, TV or other media

Special exhibits or trade fairs

Chambers of commerce

Other associations

Consulting firms

Relevant government agencies

Internet

Its own customers or suppliers

Other (specify)

47 What share of managerial and technical personnel comes from the following sources?

Local (%)

Outside the province or the city where your firm is located (%)

Nationwide recruitment (%)

Former employee of state enterprises who were laid off (%)

Returned from overseas or recruit through head hunters (%)

Graduates from colleges or graduate schools and research institutions (%)

Transfer from government agencies (%)

48 What share of employees comes from the following sources?

Local (%)

Outside the province or the city where your firm is located (%)

Nationwide recruitment (%)

Former employee of state enterprises who were laid off (%)

Transfer from government agencies (%)

49 What share of the following are obtained from abroad?

Machinery and equipment (%)

Technical know-how (%)

Specialists (%)

Funding (%)

Brand name (%)

Technology, information and specialized services
(such as accounting and consulting) (%)

Other (specify) (%)

50 Who are the shareholders?

Suppliers of your firm	Yes____	No____
Important customers of your firm	Yes____	No____
Financial institutions or companies	Yes____	No____
Government agencies	Yes____	No____
Research institutions or colleges	Yes____	No____

51 What are the current major sources of funding of your firm (select 3)

Investment from state enterprises

Government investment

Individual or family savings

Foreign investment

Investment from private enterprises

Venture capital or funding for special technology

Capital accumulation that is rolled over

Bank loan

Loan borrowed from friends and relatives

Internal company funds (equity, returned earnings, etc.)

52 What is the percentage of bank loan to the funding of your firm?

10% or less

10-50%

50% or more

V. External environment of private enterprises

53 What are the most serious problems in the market environment (in order of 1-3)?

Disorder of discipline in market competition

Local protectionism

Monopoly

Over-regulation

Fake products

Intellectual protection

Taxation

Other (specify)

54 Do you think that your properties are effectively protected?

No protection at all

Basically no protection

Some protection

Basically protected

Fully protected

55 Do you think that your interests in the business contracts are effectively protected?

No protection at all

Basically no protection

Some protection

Basically protected

Fully protected

56 What are the main infrastructural constraints to the development of your business?

Telecommunication facility

Road communication

Water supply

Electricity

Mailing system

Internet

Fuel, oil and natural gas

Environment and sanitation

Land and building space

57 What roles do the policies and regulations of the national government play?

Severe constraint

Moderate constraint

Neutral

Helpful

Very helpful

58 What roles do the policies and regulations of the local government play

Severe constraint

Moderate constraint

Neutral

Helpful

Very helpful

59 Compared with three years ago, what do you think about the attitude of the national government to the development of private enterprises

- Much less recognition
- Less recognition
- Just the same
- Much recognition
- Much more recognition

60 Compared with three years ago, what do you think about the attitude of the local government to the development of private enterprises

- Much less recognition
- Less recognition
- Just the same
- Much recognition
- Much more recognition

61 Access to financial resources from your local banks

- Very difficult
- Relatively difficult
- Neutral
- Relatively easy
- Very easy

62 Access to financial resources from non-bank sources

- Very difficult
- Relatively difficult
- Neutral
- Relatively easy
- Very easy

63 What are the main reasons for not being able to obtain bank loans (select up to 3)

- Small business scale of your firm
- Your firm is not state-owned
- No credit guarantee
- Policy restrictions
- Lack of credit
- Lack of connection
- Other (specify)

64 What are the main reasons for not being able to obtain non-bank financial resources (select up to 3)?

Small business scale of your firm

Your firm is not state-owned

No credit guarantee

Policy restrictions

Lack of credit

Lack of connection

Other (specify)

65 What is the frequency of intervention, harassment and abuse by relevant administrative agencies?

Very frequent

Frequent

Tolerable

Relatively few

Very few

66 What is the amount illicitly charged on your firm by the government in the last year?

67 Does your firm ever receive favorable tax treatment? Yes_____ No_____

68 What is the degree of market competition facing your firm?

Very intense

Relatively intense

Neutral

Less intense

Not intense at all

69 Who are the main market competitors of your firm (select two)?

State enterprises

Stock listing companies

Private enterprises

Joint ventures between domestic and foreign companies

Totally foreign-owned companies

Foreign companies

College or research institutions

Other (explain)

70 Does your firm face restriction in market entry? Yes____ No____

If yes, which of the following apply?

- Government permit
- Regional protection
- Individual management
- Government policies
- Market size

71 Compared with three years ago, what do you think about the development trend of local private enterprises

Much worse

Worse

Just the same

Better

Much better

VI. Safety net and labor relations

72 Does your firm have safety protection measures in the operation field? Yes____ No____

73 Has your firm established social security scheme? Yes____ No____

If yes, what is the following in percent of the wage:

Contribution from the firm (%)

Contribution from the worker (%)

If no, does it plan to set it up? Yes____ No____

If yes, which of the following:

- Medical insurance and health services
- Unemployment insurance
- Pension
- Other (Specify)

74 Were there labor disputes in the past three years in your firm? Yes____ No____

If yes, which of the following

- Wages and salaries
- Working hours
- Working environment and conditions
- Labor contract
- Lay off
- Compensation for injuries
- Work security
- Other (specify)

75 Does the production of your firm cause pollution to environment? Yes_____ No_____

If yes, what's the amount spent on anti-pollution measures as percent of sales:

0-1%

1-3%

More than 3%

76 What is the amount spend on contribution to social charities as percent of sales

0-1%

1-3%

More than 3%

VII. Role of China General Chamber of Commerce (CGCC)

77 What information does your firm receive from CGCC at national and local levels and from other associations (check up to three)

National Local

CGCC CGCC Other

- 1) Information on government policies
- 2) Information on markets
- 3) Information on technology

Information on financial services

Information on customers, suppliers and strategic partners

Other (specify)

78 What actual services have your firm received from CGCC at national and local levels and from other associations (check up to three):

National Local

CGCC CGCC Other

- 1) Training
- 2) Business advisory services
- 3) Assistance dealing with government agencies
- 4) Assistance dealing with banks and other financial institutions
- 5) Other (specify)

79 What information and assistance would you like to receive from CGCC at national and local levels and from other associations (list up to three):

From national CGCC

- 1)
- 2)
- 3)

From local CGCC

- 1)
- 2)
- 3)

From other associations

- 1)
- 2)
- 3)

80 Indicate your willingness to pay for the following services (in order of 1-3):

<u>National</u>	<u>Local</u>	
<u>CGCC</u>	<u>CGCC</u>	<u>Other</u>

- 1) Membership
- 2) Training
- 3) Information
- 4) Business advisory services
- 5) Facilitation of services
- 6) Other

July 6, 2001

Annex 2c Chief Executive Officer Survey

[xx Note text was not edited; only numbering was adjusted]

1. Please explain the development history, current economic scale, operational status and average growth of your firm.
2. What was your first transaction? How was it accomplished? What was the most successful activity in the history of your company and please explain why?
3. What was the greatest challenge you faced in the past, that you now face, and that you expect to face in the future?
4. What is the stock share structure of your firm? Who makes the final decision? Who participates in the decision making? Who is consulted for decision making?
5. From your experience, what are the main requirements for successful management? What are the main lessons you have learned from your experience?
6. In managing the firm, what have you drawn from your past experience and from the theory of management? What are your views on the best way of managing companies and dealing with the Chinese system?
7. Do you rely more on local recruits or on recruits from outside your region when you hire? Why? Are your high level managers recruited professional managers or trained and promoted from inside of your firm?
8. Compared with three years ago, how do you evaluate your firm's performance with respect to technology, management, culture, market, products and profitability?
9. What are the patents and licenses owned by your firm? How much do you invest in the development of technology, new processes, and new products?
10. What kind of relationships does your firm have with colleges and research institutions?
11. What kind of education and training have you received? What additional training do you need?
12. Do you have a training unit and system in your firm? What governs your decisions on training for your senior staff and workers? Under what circumstances would you be willing to pay for training delivered by universities/colleges, CGCC, industry associations and consultants?

13. What roles do your family members, friends, and classmates play in the operation of your firm? What positions do they hold?
14. What measures do you take to prevent labor disputes in your company? If you had labor disputes in the history of your firm, how did you solve them?
15. What non-cash benefits does your firm provide for the security of your employees, e.g. health insurance, unemployment insurance, pension, etc.?
16. What are the problems your firm faces in obtaining financial resources? In what ways has the environment for mobilizing funds for your firm improved or deteriorated in the past three years? What do you think about the future prospects for mobilizing funds?
17. What difficulties do you encounter in acquiring information regarding government policies and regulations, foreign trade, markets, products, technology, competitors, etc.? How do you obtain this information?
18. What are the risks and opportunities for your firm after China joins the WTO? How do you plan to deal with these risks and opportunities?
19. What are the impediments to your entry into new markets inside or outside China? What are the options to remove them? What other problems do you face in the markets you compete in?
20. Compared with three years ago, in what ways has the local government improved its policies and regulations affecting your firm in order to reduce corruption, to improve the delivery of services and to support private sector development?
21. Compared with three years ago, in what ways has the national government improved its policies and regulations affecting your firm in order to reduce corruption, to improve the delivery of services and to support private sector development?
22. How much time do you and your senior staff need to spend to deal with the national and local governments' rules and regulations?
23. How do you view prospects for the development of private enterprises in your city/region? Where would prospects be better and why?
24. How have the changes in macroeconomic conditions in the past three years affected your firm?

25. What services have you received from CGCC and other industry associations, and what services would you like to receive in future from them? For which services would you be willing to pay?

July 6, 2001