

# **The Development of Private Enterprise in the People's Republic of China**

After more than two decades of sustained reform, the economy of the People's Republic of China (PRC) bears scant resemblance to the erratically performing command economy that preceded efforts beginning in 1979 to re-introduce market principles. Twenty plus years of growth at around 9% a year have quadrupled gross domestic product and made the PRC into a trillion (US) dollar economy. To a very large extent, the driving force behind the PRC's spectacular economic gains has been the re-emergence of a dynamic private sector.

Exactly what comprises the "private sector" in the PRC is murky, and a lack of clarity is evident in the data on economic performance provided by the State Statistical Office.<sup>3</sup> What is entirely clear, however, is that the PRC's ability to sustain fast growth and continue to improve the welfare of its people depends overwhelmingly on how effectively the resurgent private sector performs. But, in investigating what policy and other changes would help the private sector to continue to perform well, governments at all levels need to recognize that, no matter how well-meaning they are, changes to laws, regulations, institutions, and policies that stifle entrepreneurship and impede competition will erode the dynamism of the private sector and harm the country's economy.

This report expands earlier work that documents the growth of private enterprise in the PRC, and identifies the policy, institutional, and other constraints that threaten the ability of private firms to thrive. In particular, it builds on the analysis found in an earlier study by the International Finance Corporation (IFC),<sup>4</sup> as well as on a new survey of private enterprises in the PRC conducted for this study by faculty and students of the School of Economics and Management of Tsinghua University (see their report in Annex 2). The study is funded under Technical Assistance Grant No. 3543-PRC "Private Sector Development" (TAR: 33447-01) by the Asian Development Bank (ADB). The main beneficiary of the technical assistance project is the China General Chamber of Commerce (CGCC), also known as the All-China Federation of Industry and Commerce (ACFIC). The objectives of the project are: (i) to assist CGCC in identifying and promoting appropriate policies and conditions for private enterprise development and (ii) to enhance CGCC's business support services.

## **Section 1: Private Enterprise in the People's Republic of China**

Two notable events in 2001 contributed to a significant improvement in the climate for private enterprise in the PRC. The first was the speech by President Jiang Zemin on 1 July that extended membership in the Communist Party of China (CPC) to the owners of private businesses.<sup>5</sup> Of the people interviewed for this study, officials and entrepreneurs alike interpreted this development as an important elevation in the status of the private sector, and one that remains controversial with hardline party members. The second event was the PRC's long-awaited accession to the World Trade Organization (WTO). With accession at hand, senior officials, especially in Beijing,

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<sup>3</sup> See *China Statistical Yearbook*, various editions, as well as Annex 1, which discusses the data available on enterprises according to ownership structure.

<sup>4</sup> See *China's Emerging Private Enterprises: Prospects for the New Century*, IFC (2000).

<sup>5</sup> See the speech made by Jiang Zemin, General Secretary of the Central Committee of the Communist Party of China (CPC), at the Meeting celebrating the Eightieth Anniversary of the Founding of the CPC.