

In Table 3.2 a proposed agenda of actions is shown for each of the five broad areas that the survey identifies as being of most concern to entrepreneurs, and for the time periods over which those actions feasibly could be implemented. Probably nothing is more important than clearly establishing rights to property and then ensuring that the legal system is able to enforce contracts in a timely manner. Both are needed if firms are to borrow against assets, be they land and buildings, marketable equipment and other goods, or receivables. Governments need to pay particular attention to the issue of how creditors and guarantors can recover collateral in the event of default, even if this means establishing special courts or arbitration arrangements that can act decisively and quickly to settle claims in days or weeks rather than months or years. Even then, banks will need much greater discretion over the fees and interest rates they can charge for loans if small private borrowers are to become attractive commercial clients. The dramatic growth in consumer lending in recent years demonstrates clearly the enormous commercial potential for banks in lending to small businesses if conditions are right.

### **Summary**

The survey conducted for this study finds an improved climate for private enterprise in the PRC since the earlier IFC study was completed, but confirms that the major impediments to the growth of private firms identified by the IFC study continue to constrain those firms. The areas that most need attention are: improving the access of private firms to finance, skilled personnel, and information; and improving policies and regulations, and the consistency and transparency with which they are implemented. Governments at all levels have initiated many actions to improve the situation, although some of them seem ill-designed for the purpose (e.g., guarantees for bank lending to SMEs), and progress in other cases seems unduly slow. An area that needs urgent attention is the discretion residing with local officials to interpret policies inconsistently, as well as to pester entrepreneurs for non-transparent payments. Better training of officials and more widely disseminated information about policies could help, as would more reliably enforced penalties for officials who abuse their office. The CGCC and similar organizations can help to improve matters by representing members' interests more effectively with governments, and by providing better information in many areas.

## **Section 4: The Role of the China General Chamber of Commerce**

The preceding discussion raises the important question for this study: how best can the CGCC and its LCs ease the constraints on private enterprise and contribute to faster growth of the PRC's private economy? Elements of the answer would include decisions on how a refocused CGCC would better (i) represent its members' interests in discussing with governments members' concerns about the design and implementation of policies, laws, regulations, and rules; (ii) facilitate the interaction of individual firms with official agencies, including, for example, in acquiring licenses or registering with the tax authorities; (iii) inform its members about conditions in domestic and foreign markets, the policies that apply to them, important upcoming events, etc.; and (iv) coordinate social and mutual support activities for members. This section reviews the current organization, structure and functions of the CGCC, and considers what changes might allow it to serve its members better.

## **Mission and Overview**

The All-China Federation of Industry and Commerce (ACFIC), now also known as the China General Chamber of Commerce, was established in 1953 as a (quasi) nongovernment organization (NGO) to represent the interests of industrial and commercial business in the PRC. The ACFIC is a member of the Chinese People's Political Consultative Conference (CPPCC). The CGCC has become the "new face" of the ACFIC, which in 1993 received the approval of the State Council to adopt another name (China General Chamber of Commerce) with the objective of better serving the rapidly emerging nonstate enterprises. The original designation, ACFIC, reflects in its nature the "unification of all political fronts;" the intent of the CGCC is to shift the emphasis more toward economic and nonstate activities. In law, the ACFIC was defined as the representative in national deliberative bodies of economic entities under nonstate ownership, but there is no clear legal role for the CGCC, although it is allowed to run businesses and operate as a NGO.

On 30 September 2001, the CGCC system had a membership of about 1.57 million, comprising enterprises, institutions, and individuals, but members are predominantly SMEs and individually owned ventures (*getihu*). It has an extensive network of local chambers of commerce (called local chapters, LCs) throughout the country. Under its mandate, the CGCC is authorized to provide a variety of services to its members and to the community at large, including delivery of training, organization of trade shows, arranging for technological exchanges, and assistance in developing poor and ethnic minority regions. It is also supposed to promote foreign economic cooperation and trade, and to foster relations between Chinese and foreign companies. As a bridge between governments and the industrial and commercial sector, the CGCC is supposed to safeguard its members' legitimate rights and interests, participate in political consultations, and help in decision-making on economic and social issues.

## **Structure of the CGCC and Local Chapters, and Links to Other Bodies**

The CGCC system has some 3,059 local chapters at the county level and above, of which 358 local chapters are located in major cities throughout the PRC covering 95% of the nation's administrative regions. Below the county level, there are some 18,481 chapters at the township and community level, 461 of which were founded during 2001. Chapters at the grass-root level (township and community) are fee-based. The Chairman, other officers, and staff are appointed and paid by the local governments. Recently, however, a few chapters have decided to experiment and elect entrepreneurs as chairs of local chapters (for example, in Zhejiang, Sichuan and Shaanxi provinces). But these are not free elections by the membership, as political considerations still play a major role in determining who can serve in the office. By contrast with similar associations, the CGCC and its LCs have political status, and can nominate representatives of nonstate ownership to political bodies. This privilege is valued; some private enterprises join LCs, simply because they can be nominated to the CPPCC and the National People's Congress (NPC). Nevertheless, during the IC's fieldwork, some LCs conveyed the sense that they feel both that they have insufficient authority to serve members as they would wish to do, and that the voice of the CGCC and its LCs has limited influence with governments. (Brief information on the structure of five local chambers visited by the IC is in Box 4.1.)

#### Box 4.1 Characteristics of Local Chambers of Commerce

The international consultant visited several local chapters of the CGCC as part of its field work and thereby gain an appreciation of the extent to which the LCs differ in size and in the scope of their activities. Dimensions of four of the city level chambers are described here, along with one of Beijing's sub-chapters.

*Beijing Provincial General Chamber of Commerce:* The Beijing Provincial Chamber has 10 departments, 88 employees, and 10,000 members, of which 6,000 are nonstate enterprise (5% of the total enterprise population). It coordinates and provides guidance to 69 branch LCs in Beijing's 18 administrative regions. The area nominates 50 members to the NPC and 288 members to the CPPCC. The *Fengtai City General Chamber of Commerce*, within the Beijing District, draws its membership from 8,000 private enterprises with 120,000 employees in agro-industries (flowers, vegetables), furniture, medicines, service industries, etc. The Fengtai Chamber started in 1993; it has a staff of 11 with a budget of 0.4 million yuan. It has 473 enterprise and 100 individual members, and has eight village branch chambers with 4–5 staff each. The Chamber also owns and manages two businesses—a retail outlet and an elementary school. The Chamber effects liaison between private enterprises and governments, disseminates information on Government policies, provides advice and training, and assists in the start-up of new enterprises. Members value the Chamber's assistance. The Fengtai Chamber is quite active, and would like to offer more services to its members, especially training and information services. It volunteered to serve as a pilot chamber to initiate reform, as part of a broader reform agenda for the CGCC system.

*Nanhai General Chamber of Commerce (NGCC):* The Nanhai area is a pioneer in developing a private economy; now, almost 90% of its economic activity is generated by 70,000 private enterprises. The main industrial sectors include leather products, tools, aluminum goods, and ceramics. The Nanhai Chamber has 1,380 members, a staff of nine, and a budget of about 1.2 million yuan. The CGCC provides guidance to local chapters, but has no formal financial or administrative link or control. The Chamber provides mainly liaison between private enterprises and the government, disseminates government policies and provides limited training. Many companies join the NGCC because they see it is a government entity that can be their mouthpiece. Some companies view membership as an obligation and expect little in return. The Chamber would welcome more power and authority, but had few specific ideas on either changing its role or expanding its influence.

*Shenyang General Chamber of Commerce:* The Shenyang Chamber has a staff of 40, a budget of one million yuan, and 10,000 members. The budget also has to finance the benefits of its retirees and former senior officials of the Shenyang Federation of Industry and Commerce. Like the ACFIC, the Shenyang Chamber was also established in the mid-1950s to effect liaison with owners of private firms (so called "capitalists"). Until the early 1990s, its functions were solely of the so-called "unification" nature. In 1994, with the approval of the local government, the Chamber was set up as a chamber of commerce, with five divisions: association, economic and research, external liaison, membership, and the enterprise rights protection center. The external liaison division maintains an international friendship and exchange association with 20 chambers from various countries. The association division provides guidance to a dozen industry and service associations in Shenyang. The Chamber states that its ability to provide services to members has been constrained by its limited budget.

*Xi'an General Chamber of Commerce:* The Xi'an Chamber's membership comprises 7,212 out of some 23,000 non-state enterprises in the area. It has a staff of 39, and a budget of over 0.7 million yuan. The chair of the local chapter is also an executive member of the CGCC Board. The Chamber feels that it has insufficient authority to provide all the services that the membership needs. It would welcome a law to establish the authority of the CGCC and its local chapters to speak for non-state ownership; its voice currently is not strong enough to have much influence on governments. The Chamber provides the following services: liaison between private enterprises and the government, dissemination of government policies, organization of technology exchanges, promotion of the interests, products and services of private enterprises, assistance to governments in implementing such policies as requiring firms to introduce programs to provide pensions, medical insurance and social security insurance to employees, and support to former officials of the industrial and commercial chamber (more than 700). The Chamber provides only limited training services as it feels that large enterprises can afford to meet their own training needs through outsourcing, while small enterprises' interest in training is low.

The CGCC system comprises a wide network of chambers throughout the PRC at the national, provincial, city and village level. The relationships of the chambers at various levels are informal and quite loose. There is no financial and/or administrative link between different chamber levels. Each chamber is independent and is supported by its respective local government, which provides its LC with budgetary support. There is also considerable variation in the organizational structure, size and activities of different chambers depending upon the local conditions and the attitudes of local governments. The national CGCC provides guidance to the provincial and local chambers. The provincial chambers also provide guidance to their respective

LCs. Given the nature of administrative arrangements, the national and provincial chambers have no formal authority to issue orders to the LCs.

### **Relationships Between the CGCC and Other Organizations**

The CGCC system has loose, and in some cases less than fully, cooperative links with other organizations that have responsibilities for private enterprises or exist to provide services to them. There are, for example, shared interests between the CGCC system and such other associations as those supervised by the State Administration for Industry and Commerce (SAIC); in some cases, local *getihu* associations and private enterprise associations of the SAIC group are also members of the CGCC. A Vice President of the SAIC is a Vice-Chairman of the CGCC. In many instances, there is duplication of activities between CGCC and SAIC supported associations, with the two systems competing in supplying certain services to members. Despite these overlaps, the IC has observed that, in general, there seems to be a lack of coordination and cooperation with private industry associations at the working level, even though some LCs have established working relations with local SAIC offices. The CGCC also has more or less formal interaction with the MOFTEC, the SETC, and the China Council for the Promotion of International Trade (CCPIT). Once again, coordination seems less than it might be, especially in exchanging information and disseminating it effectively to private firms. The CGCC has developed relations with some foreign chambers, and has developed formal exchange programs with chambers in Germany, Norway, and Japan, which provide training, seminars, and advice to the CGCC and some LCs. The CGCC itself provides similar services to the Chamber of Commerce in Nepal. Nevertheless, the CGCC seems to be neglecting opportunities to benefit from the experience of foreign chambers, and there seems to be value in seeking more extensive cooperative arrangements with large foreign chambers operating in the PRC and elsewhere.<sup>54</sup>

### **Organization, Staffing, and Budget**

The CGCC is organized into nine departments and employs 166 staff members (Figure 4.1), with some 14 unfilled positions. The departments (with staffing numbers in parentheses) are: General Office (61), Study and Research Office (14), Liaison (14), Membership (17), Publicity and Education (15), Information and Consultation (16), Economic (15), Legal (6), and the Communist Party Committee Office (6). In addition, the CGCC operates three centers as divisions under departments, namely a Training Center, Information Center and Human Resource Exchange Center. The CGCC is top-heavy, with almost half its personnel occupying management positions, including seven director generals, 12 deputy director general, 27 director, and 35 deputy director level positions. The staff are both well educated and experienced: 95% of staff members have higher level (college) education and an average experience at the CGCC of 5 years. A secretary general supported by one deputy secretary general heads the CGCC. Currently, a Vice-Chairman of the CPPCC (which is a deputy prime minister level position) is the non-executive Chairman of the CGCC. In the past, a Vice-President of the PRC as well as Vice-Chairmen of the NPC or CPPCC have occupied the position of CGCC Chairman. The CGCC also has 21 non-executive Vice-Chairmen (with Deputy Minister rank), nine of whom are

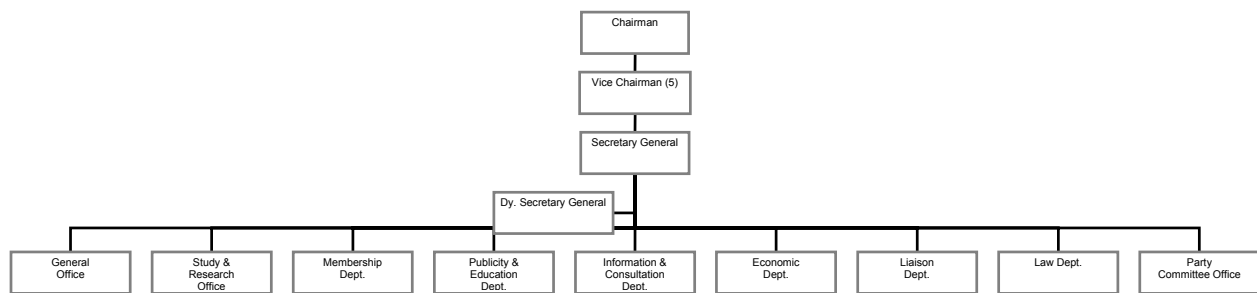
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<sup>54</sup> One of the objectives of the training program conducted under this study, as well as the study tours for CGCC officials and members, is to raise awareness of the potential benefits from more frequent organized exchanges with foreign chambers.

residents and responsible for a single department. Despite, or perhaps because of this, there is little coordination between CGCC departments.

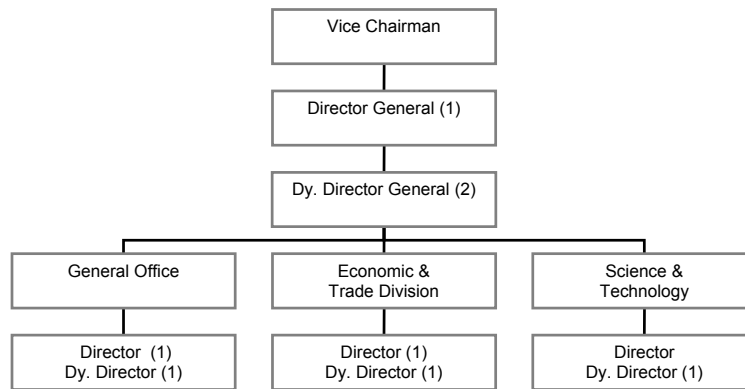
The Economic Department, the main counterpart for this study, is responsible for the CGCC's economic activities including trade fairs and exhibitions, which are organized mostly in response to *ad hoc* requests from the Government. (See Figure 4.2) A director general, with support from two deputies, heads this Department with oversight from a vice-chairman who is a member of the NPC's Standing Committee. The Department has 15 staff members, divided among three divisions, each of which boasts both a director and a deputy director. The Divisions (and staffing levels) are: General Office (4), Economic and Trade (4), and Science and Technology Improvements (4).

**Figure 4.1 Organization Chart of the CGCC**



The Training Center at CGCC has a staff of eight, all at the management level. All training is out-sourced. The Center prepares annual training plans under the guidance of the Education and Training Committee made up of one CGCC Vice-Chairman and the Directors of 47 LCs. Recently, the Center introduced some vocational certificate courses using members' facilities (not in-house), for example, for employees of beauty salons and hotels (waiters, maids, providers of room service, etc.). The LCs organize their own training programs independently of the CGCC. The most important activity of the Training Center is to train the staff of the CGCC and the LCs, some 60-80 persons annually, in several seminars on such subjects as history, changes in policies and regulations, management skills, dealing with banks, and the like. Training for members focuses on government/party policies, national ethics, economic and financial issues, provisions of the WTO, the history of the ACFIC, and so on. The training courses are open to managers at the provincial level and the members of the Executive Committee of the CGCC. The training is contracted out to training providers (experts) and costs are charged back to the enterprises.

**Figure 4.2 Organization Chart of CGCC's Economic Department**



The CGCC also operates an Information Center (set up in 1993) that runs a web site ([www.acfic.org.cn](http://www.acfic.org.cn)) containing information on many aspects of the economy, technology, trade fairs, and so on. It is developing another web site ([www.chinachamber.com.cn](http://www.chinachamber.com.cn)) to provide information on some 600,000 domestic and foreign enterprises and their products. The Center has three divisions and 20 employees, and is self-financed from fee income. It earned 600,000 yuan in 2000. It is free to hire and fire staff based on the demand for its services; in 2000, its staffing was 30, a one-time increase to develop web-based services. The Center helps arrange logistics for members' travel, trade fairs, exhibitions, and other activities. Registration in the database is free, and data on enterprises are entered by LCs. The Center also supplies information to such external bodies as the Japan Friendship Council in Beijing. Services to the CGCC are provided free of charge in return for using CGCC's "brand name" and office space.

The CGCC's revenues comprise an annual government appropriation and the fees collected from organizing events for members. Information on annual budget levels was unavailable from the CGCC, but based on an average cost per employee of up to 30,000 yuan, CGCC's staffing costs could be as much as 5 million yuan. Adding nonstaff costs would push the CGCC's annual expenses to as high as 7–10 million yuan. In addition, the Government appropriates separately expenses for trade fairs and special projects. No detailed information was available as well for the LCs' budgets, except for some limited data provided by the local chambers involved in the IC's fieldwork and reported in Box 4. Personnel data are incomplete but the whole CGCC system with some 21,500 chambers probably employs in excess of 100,000 people. The number of employees differ widely by chamber, with those in big cities employing scores of people, those serving towns employing three to five people, and those in villages or districts, only one or two people. In the aggregate, the vast CGCC system could be costing the public budget more than a billion yuan annually.

## **Membership**

The CGCC's membership includes enterprises, organizations/associations, and individual professionals, managers, and producers. The enterprise members include both Chinese-owned and joint ventures, and more than a thousand foreign-owned firms, one of which is member of the national chamber; these comprise privately owned, state-owned, and collectively owned

enterprises, as well as individually owned ventures. The membership is primarily determined at the local level, and all members of local chapters are regarded as members of the CGCC. Firms with assets exceeding 100 million yuan and inter-provincial business activity (thus, mostly large enterprises) are eligible to become direct CGCC members. There are no well-defined criteria for direct membership, but individual memberships can be extended to professionals who are famous in their respective fields. Of a total of 411,415 enterprise members, only 164 are direct members of the national CGCC, including 35 private firms, 31 foreign-funded firms (including investors from Hong Kong, China; Macau; and Taipei, China), 16 SOEs, 12 collectives, 63 shareholding corporations, five shareholding cooperatives, and 2 TVEs. As of 30 September 2001, the total membership of the CGCC system was 1,566,665, including the 411,415 enterprise members (of which some 233,499 were private firms, representing about 13% of the national total of almost 1.8 million), 13,485 organizational members (of which 14 are members of the national CGCC), and 963,728 individual members, of which 98,978 are non-state investors/managers and 772,376 *getihu* (or 3% of national total). Of all individual members, 282 (including 150 non-state investors/managers) are direct members of the national chamber.

The enterprise members are drawn from virtually all sub-sectors of the economy including trading, retailing, manufacturing, agriculture, mining, food processing, pharmaceuticals and medicines, construction, and restaurants. Firms under various forms of non-state ownership comprise 83% of the membership. The growth in membership has been quite slow despite fast growth in the number of private enterprises in the PRC during the past decade. During 1995-2001, the total membership of CGCC grew by almost 70% or an average annual rate of around 9%, but the active membership may be somewhat overstated in official figures as not all members are required to pay annual membership dues. The LCs decide their membership fees, which can be nominal. There are no accepted national criteria for establishing fees, although they could reflect enterprise size and location. By all accounts, collecting membership fees is difficult as membership is voluntary.

### **Services Provided by the Chambers**

In addition to its role as a bridge from the Party and the Government to industrial and commercial agents external to the formal Communist Party system, the ACFIC/CGCC is charged with the performance of numerous functions that make its position unique. Specifically, it is empowered to: (i) nominate members to the CPPCC and the NPC, and propose bills to the NPC to promote the interests of its members; (ii) effect liaison with government officials on policies and regulations affecting non-public business development; (iii) organize such economic events as trade fairs, exhibitions, technology exchanges, and other networking events; (iv) promote foreign economic and technological cooperation and trade, and support linkages between Chinese and foreign companies; and (v) disseminate information on government policies, markets, new technology, and many other things. Because of its participation in national legislative bodies, senior officials of the CGCC view it as a law-making body rather than as a lobby for its membership.

The CGCC recommends 60 delegates annually to the NPC, and 65 to the CPPCC (every 5 years when they change terms) from its whole membership, carefully maintaining provincial/regional and village/town/city balance. It also recommends members for prestigious awards. The CGCC played a role in the establishment of the Minsheng Bank (the first nonstate-owned bank in the PRC) as an advisor to the Government. Although it has no ownership interest in the bank, the Chairman of CGCC is on the Minsheng Bank's Board. The CGCC (through

LCs) conducts an annual economic survey of large enterprises, which reports on enterprise structure, operations, employment, and sales. The CGCC also promotes the Government's Poverty Relief Program. It hosts promotional events for returning students and private enterprises. Chambers are also involved in advising governments on the credit guarantee schemes. The LCs commission out-sourced services that include training, trade fairs, and conferences. The Government essentially directs the CGCC in what services it should provide, granting little freedom or incentive to experiment with services that respond to members' demands. But the range of services provided by LCs varies considerably based on the regional situation, membership needs and local government guidance. The LC in Nanhai is more active and entrepreneurial in offering service to members on a cost-recovery basis; in general, LCs in the South seem greatly influenced by the example of the Hong Kong Chamber of Commerce, which operates much more like the business focused chambers of wealthy countries than does the CGCC.

### **Future Role of the CGCC: Potential Scenarios**

Although the scope of services available in principle from the CGCC is quite comprehensive, the reality is that the CGCC's focus remains on the liaison between the government and the business community and its traditional political function, with only a secondary concern for providing direct services to its members. But the economic landscape in the PRC is changing rapidly, with an ever-expanding role being played by the private sector. The Government's interest in promoting growth of the private sector has increased along with the rising importance of private activity in the PRC economy. Add to that the Government's concern to nurture the small- and medium-sized enterprises that are expected to be a major source of job creation and income generation in the PRC, and one can easily conclude that the officers of the CGCC would be wise to reassess its role. With economic transformation expected to receive a further boost as the PRC adapts to the WTO, the CGCC needs to give serious thought to how it should transform itself to meet the challenges of the PRC's new economic reality.

Depending on how it chooses to meet these challenges, the CGCC needs a strategy for how it will equip itself and its chapters with the tools needed to deliver high quality services to their members and other clients. The scope of services that CGCC could choose to provide might be limited only by its imagination, and by what the membership values and is prepared to pay for. The central office could serve as an even more effective bridge between the government and private business, and LCs could be given even greater freedom to experiment with activities best suited to the demands of their constituencies. To that end, the CGCC is engaged in what appears to be some more or less uncoordinated initiatives including the current study, the election of officers of LCs, and the establishment of five committees to advise on activities in: economics and technology, education and training, political and policy consultation, external liaison, and legal consulting services. Though praiseworthy in themselves, these innovations fall short of a comprehensive strategy for tomorrow's CGCC.

The relevant question is not whether but how the CGCC should reinvent itself. The speed at which the PRC economy is changing convinces the project team that stodgy options for the CGCC are unlikely to succeed: the CGCC system must evolve to survive. As a way to focus its thinking, the senior management of the CGCC might wish to analyze three options for its future, with a view to developing a forward-looking strategy that could be presented to the Government as part of a request for an alternative mandate. Those options are:

- Business-as-usual with a narrow focus and no significant changes to current functions;
- Full conversion to a membership-oriented organization with no government support; and
- Abolition of the current CGCC system, accompanied by transfer of its public functions to other official bodies, and of its membership services to private industry associations.

Given the budgetary costs of the CGCC system, the view of the IC is that the days of the first option are numbered, and that either the second or third option would be an improvement compared with the *status quo*. Of course, during a transition period, governments at all levels might still wish to finance certain activities of the CGCC, and to use the CGCC system as a way to communicate with the nonstate business community.

## Summary

Which strategy the CGCC adopts will depend, of course, on several factors, including the demands of private enterprise, the activities of other organizations, recent and prospective economic changes, changes in the role of public organizations, etc. In our view, the way the PRC's economic scene is changing means the CGCC will be unable to continue in a business-as-usual mode for long, especially given its continuing dependence on scarce government resources. At the same time, we judge that the Government is unlikely to be willing to shut down the CGCC system completely in the near future (as it has done in the case of some government departments). That gives the CGCC a respite in which to begin to implement a transformation that will attune it better to the needs of the PRC private economy. Of course, that conversion will take time, and abrupt attempts to convert the CGCC to a membership-funded organization independent of official financial support could be undesirably disruptive. A scenario that is both appealing and feasible would see CGCC's narrow functions continue to be financed by governments (with budgetary support declining over time), while new membership services would be introduced more or less gradually, depending on the capacity of individual LCs and the willingness of their memberships to pay.

## Section 5: Assistance to the China General Chamber of Commerce

Several types of information could facilitate the CGCC's efforts to devise a working strategy. This section contributes information on the objectives and activities of modern chambers of commerce in more advanced economies throughout the world. Obviously, not all of those activities will necessarily be appropriate for the CGCC in the PRC. Hence, the CGCC needs to be selective in defining its role in promoting the growth of private enterprise, and also of SMEs. In this context, the feedback received from the Tsinghua University survey provides valuable information about the potential demand for the CGCC's services from its membership. In addition, lessons learned from the study tours about operating and managing chambers of commerce in other countries should be a major source of supplementary input. Once its leadership reaches a consensus on the future role of the CGCC and devises a strategy to attain its objectives, the next step should be to evaluate the system's current capacity to implement the strategy, and to develop an action plan to shore up that capacity where necessary.

In terms of the immediate constraints on private business, the CGCC's comparative advantages seem to lie in more comprehensive dissemination of information, selective provision