

Has Privatization Been Effective for China's Social development?

-- A Case through China's Private Sector Growing Up

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Definition of Chinese Private Sector

- Statistic categories:
 - State-owned Units
 - Collective-owned Units
 - Individuals Economy (self employed, less than 8 employees)
 - Other types of Ownership (pool, share-holding, foreign-funded, funded by HK-Macao-Taiwan and others)

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Outline

- Definition of Chinese Private Sector
- Contribution to National Economy
- Restriction, Resume and Development (1949-2003)
- Current Difficulties
- Conclusion: Perspectives

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Definition of Chinese Private Sector

- Confusions
 - Private sector for broad sense: Non-state-owned sector
 - Private sector for narrow sense: Purely national private funded enterprises
 - Statistic difficulties (e.g. joint ownership, mixed collective ownership)
- General sense of private sector: Non-state-owned and FDI excluding

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Private Sector Contributes to National Economy

- Investment
 - Total investment: ¥ 3390.6 billions RMB (2003, for non-state-owned sector)
 - 61.02% of national total:
 - Growth rate (2003/2002):
 - 27.7%(national total)
 - 14.7% (State-owned)
 - 33.8% (Collectives)
 - 18.4% (Individual)
 - 50.0% (Others)

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Private Sector Contributes to National Economy

- 55.6% of GDP (2003)
- 52.7% of total value-added industrial output (2003)

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Private Sector Contributes to National Economy

- Enterprises
 - Total numbers of private enterprise (2003):
 - 3.2 millions (≥ 8 employees)
 - 27.9 millions (< 8 employees)
- Employment (2003)
 - Total numbers: 675.56millions
 - Proportion of nation total: 90.76% (for all non-state-owned sector)

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Outline

1. Definition of Chinese Private Sector
2. Private Sector Contributes to National Economy
3. Restriction, Resume and Development (1949-2003) of Private Sector in China
4. Current Difficulties
5. Conclusion: Perspectives

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Restriction, Resume and Development (1949-2003)

- Results:
 1. Newly created SOEs
 - a) Big ones helped by USSR and from the confiscated properties of old governments
 - b) SMEs from confiscation and purchase of private capitalists
 2. Newly Created COEs
 - a) Due to urban unemployment
 - b) Due to urban woman workers

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Restriction, Resume and Development (1949-2003)

- 1949-1965: Nationalization
 - Policies:
 1. Building a new socialist country
 2. Reconstructing private enterprises
 3. Solving unemployment problem
 4. Promoting woman workers (From family to society)

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Restriction, Resume and Development (1949-2003)

- 1966-1977 (omitted)
- 1978-1992
 - Policies:
 1. Opening up
 2. Ownership reform
 3. Promoting self-employment (urban) and collective (rural) investment
 - Decreasing the unemployment pressure (urban and rural)

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Restriction, Resume and Development (1949-2003)

- Concepts: MIN YING (Non-state-owned, transition word in the opposite to State-owned)
 - Political reason: gradual reform
 - Not yet officially recognized private property

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Restriction, Resume and Development (1949-2003)

- Results:
 - Introduction of FDI (not included in the private sector at present)
 - SOEs reform: deregulation and augmenting SOEs autonomy.
 - Emergence of township enterprises (rural collective firms)
 - Self-employment in urban area (mainly in service sector)

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Restriction, Resume and Development (1949-2003)

- Diversification of ownership
 - State-owned
 - Collectives (township included)
 - Shareholdings (limited)
 - Foreign invested firms
 - Private firms (employees more than 8)
 - Self-employed firms (employees less than 8)
 - Others

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Restriction, Resume and Development (1949-2003)

- 1993-2003
 - Policies
 1. Clearly defined legal protection of private property
 2. Promoting private enterprises development

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Restriction, Resume and Development (1949-2003)

- Results:
 1. Booming of private enterprises
 - From ownership reform of SOEs (shareholding reform)
 - From ownership reform of COEs (shareholding reform or merge by private capital)
 - From township enterprises (legalised)
 - From new private investment

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Current Problems and Conflicts

- Five main problems
 - Entry Barriers
 - Financing Difficulties
 - Social Discrimination
 - Low Competitiveness
 - Lack of Social Security Protection

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Entry Barriers

- State monopoly
 - Sectors such as banking, insurance, telecommunication, energy, infrastructure, environment, education, health, etc.. (some of them have just begun to open to public according to the WTO commitment, however, it takes time to change the thinking style and government behavior)

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Financing Difficulties

- Restriction of current banking system
 - Main banks are still state-owned, less focus on private sector
 - No intermediate organization to serve the private enterprises
 - High threshold for private sector to finance in capital market (incomplete market)

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Social Discrimination

- Less policies support even comparing with FDI (e.g., to obtain the quotas of import and export)
- Personnel system (lack of labor mobility between public and private sectors, urban and rural areas, etc..)
- Permission for land utilization

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Financing Difficulties

- Low private creditability
 - Monitoring difficulties
 - Small size and high mobility
 - High market risk
 - Lack of legal and complete internal financial system

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Low Competitiveness

- Small size:
 - Average employees per firm: 13.4
- Less advanced technology
 - Especially comparing with TNCs
- Insufficient human resources
- Over depended on family or related linkage
- Lack of legal consciousness

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Lack of Social Security Protection

- Governmental budget limitation to promote social security system
- Laws and rules give priorities to SOEs
- Weak public social security system, especially in local level
- Low wage and less social protection for private sector.
- Social justice

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Conclusion

- Three key factor to further understand the essence for promoting private sector development:
 - Positive acting role of local governments
 - Taxation reform in 1994
 - Central financial constrains
 - Regional development gaps

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Conclusion

- Policy trend
 - Continuing to promote and to legally support the development of private sector
 - Implementation for equal treatments
 - Facing same rules after WTO
- Continuously rapid growth of private sector
 - No other choice
- Standing the reform cost and growing pain of national economy
- Facing the challenge of market internationalization

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Conclusion

- Nevertheless the private sector has played a very important role in China's rapid economic growth in the past 25 years, we witness its function in social development. A rapid development is not equal to a health development. This should be the essential concept for the future development of China.

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