

# The development of private enterprises in china

Business



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The reforms in the economic policy of China have paved the way for its continued dominance over recent years. The realization of the inapplicability of a purely socialist economic structure and the adaptation of a modified form has instigated a new revival to their economy. The Open Door policy is the most serious reform toward this direction that China has implemented where foreign investments and the opening of certain institutions within the region has stimulated business. Geographic opening started in 1979 with the former province of Guangdong more commonly known today as Hong Kong and Fujian toward more elastic policies. By 1980, economic zones were created that was followed by more in the succeeding years by the clear establishment of Special Economic Zones. In terms of trade, it has implemented decentralized trade system, tax refunds and systematic foreign trade (Galbraith, p. 9).

The shift from the strict implementation of socialist policies to capitalistic ones was achieved primarily through the loosening of the constraints imposed by the government of the People's Republic of China which allowed for the growth of the enterprises. This stimulated the businesses that enabled them to seek and work for returns enabled by the economic atmosphere that permitted such. The International Finance Corporation found that the main restrictions that obstruct business growth include access to finance, prejudicial competition, unreliable policy implementation and availability of information. To address these issues, the government introduced various ways to alleviate the problem and continue to do so consistently (Asian Development Bank, p. vii). The realization of these policies serves as an anchor that empowers enterprises to pursue continued growth in the region from the vantage point that was the Open Door Policy.

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The recognition of the involvement of the private sector in the country's development was pivotal in clearing the path for acceptable growth. The fear of capitalism overtaking the ideology of Marxism has posed a constant battle to the region. The promotion of market-oriented reform came into being with the slackening toward a new ownership structure from firmly public ownership. " Since the late 1980's, private enterprises in China had grown continuously an average rate of more than 30 percent every year since 1992. By the end of 2005, the number of private enterprises was 4. 30 million, while total registered capital was 6, 133. 11 billion RMB, hiring a total of 58. 24 million employees. Non-public sectors have contributed to one-third of GDP and four-fifth of new employment in recent years" (Zheng and Yang, p. 8).

One of the accomplishments of China's reform and open-door policy was the privatization of state-owned enterprises (SOEs) which started in 1979 when government intervention in corporate management was moderated.

Contrary to the former system wherein the government kept tight controls over the wide range of management activities of the SOEs, the SOE reforms of the 1980s focused on improving management. This leads to the adoption of a policy based on a corporate law. It is called as the " construction of the modern corporation system" (Ke, n. p.). Its first objective is for the separation of the management and the ownership of SOEs to establish a governance system on the basis of profit maximization. To regulate things such as the evaluations and the employment terms for managers and employees, fixed laws are implemented. The second objective is the conversion of the SOEs into public corporations. This means SOEs going public on domestic or foreign stock markets.

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The State Administration for Industry and Commerce together with the National Bureau of Statistics issued the “ Regulations for Classifying Registration and Licensing of Enterprises by ownership”. As per these regulations, the privately owned enterprise category is one of the categories of wholly domestically funded enterprises. As a category, these privately owned enterprises or *siying qiye* are considered independent business category in the “ Tentative Stipulations on Private Enterprises” in 1988. This gave the definition “ for- profit organizations owned by individuals and employ more than eight people” (Asian Development Bank, p. 63). Privately owned enterprises in China may be in the form of sole proprietorships, partnerships and limited liability companies.

Sole proprietorships, or wholly individually owned private enterprises are registered under the “ Provisional Regulations for Private Enterprises” issued by the State Administration for Industry and Commerce in 2000. These are legally recognized as enterprises but in the legal sense they are not companies because the owner is usually a single natural person with unlimited liability for the firm. Similar to sole proprietorships, because they are owned by natural persons sharing unlimited liability for the enterprise are the partnerships. These enterprises are registered under the “ Law Governing Enterprises under Partnership” and “ Methods for Registration by Partnership.” Private limited liabilities companies and private shareholding corporations are limited liability companies which are registered under the “ Company Law” and “ Provisional Regulations for Private Enterprises.” The latter requires either a single owner, or five or more owners.

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