

China's Private-Owned Enterprises Economic Performance, Political Action & Fiscal Consequence

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For most transition countries who want to transfer to a market-oriented system from the planned-economy, one of the most important features is to shrink the state-owned enterprises (SOE) and expand the private-owned enterprises(POE), such as had been experienced by the former Soviet Union and the socialist countries in Eastern Europe. The same thing is happening in China. Since China started reform and opening to the outside world in 1979, Private-Owned Enterprises (POE) have grown dramatically and become a significant contributor to China's economic growth. This paper describes firstly this great economic achievement, and then emphasizes its political consequences. The main conclusions are as follows: the prolonged prosperity of POE in China over two decades proved again that private property rights always generate higher efficiency than the public ownership system in which owners are ambiguous or unspecified. The great improvement of POE's political status comes from both the state's rational compromise and the POE's positive participation due to the pressure of economic development on the government side and the security needs for property and human rights on the POE side. Overall, the political participation by POE is helpful to improve the democratic process of governmental decision making, which has been demonstrated both at local governmental levels and with budgetary issues. However, the risks of collusion between money and power call for formal institutional mechanisms which let all people express and protect their interests transparently and legally.

POE'S Economic performance

After the completion of the socialist restructure¹ in 1956, POE's almost disappeared in China. Since 1979, with the implementation of the national reform and opening policy, POE's recovered gradually and achieved substantial growth. In 1989, POE's appeared in the China's statistical year book as a separate category.

The economic size of POE

The indicators which describe POE's economic size include: the number of POE; the total registration capital²; the total value of production; the industrial fields entered by POE; and the

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¹ One of the fundamental characters of socialism is the public economy. After the establishment of the People's Republic of China, the China Communist Party launched socialist restructure in 1953 around the country to transform private economy in all kinds of industries, such as manufacture, business and agriculture to public economy through confiscating, redeeming, joint operating and organizing the collective firms or communes. It was ended in 1956.

² In China, any enterprise should report and register to the State Administration for Industry and Commerce its minimum capital required by the state to be one of the necessary conditions when it began to operate. The number varied by the industries and the type of enterprise organization. For instance, the registration capital for production and wholesale enterprise is above 0.3 million

GDP contribution. Three time points, 1989, 1995 and 2003, are selected to describe its growth trend.

1. The number of POE.

In 1989, the total number of POE in China was 90,581. In 1995, it reached 654,531. In 1998, it exceeded 1 million and in 2003 the number became 3,005,500. The annual growth rate is 32.18% (See table 1).

Table 1: Growth of Number of POE (1989-2003)³

Year	Number of POE	Growth Rate %	Year	Number of POE	Growth Rate %
1989	90,581	--	1997	960,726	17.27
1990	98,141	8.35	1998	1,200,978	25.01
1991	107,843	9.89	1999	1,508,857	25.64
1992	139,633	29.48	2000	1,761,769	16.76
1993	237,919	70.36	2001	2,028,548	15.14
1994	432,240	81.68	2002	2,435,300	20.05
1995	654,531	51.43	2003	3,005,500	23.41
1996	819,252	25.17			
Annual average growth rate		29.97%			

2. The total registration capital of POE⁴

In 1989, the total registered capital of POE in China was \$1.05 billion and the average capital per POE was only \$11,537. In 1995, they reached \$32,775 billion and \$50,075, respectively. In 2003, they were \$441.312 billion and \$146,250, separately. The annual average growth rate is 58.6%. (See table 2)

Table 2: Growth of Registration Capital (1989-2003)⁵

Year	Registration Capital (billion)	Growth Rate %	Year	Registration Capital (billion)	Growth Rate %
1989	1.05	--	1997	64.25	36.99
1990	1.187	13.05	1998	89.975	40.04
1991	1.538	29.57	1999	128.587	42.91
1992	2.763	79.65	2000	166.35	29.37
1993	8.512	208.07	2001	227.65	36.85
1994	18.1	112.64	2002	309.45	35.93
1995	32.775	81.08	2003	441.312	42.61
1996	46.9	43.10			
Annual average growth rate		59.42%			

Chinese Yuan, and for consulting firms, it is above 0.1 million Chinese Yuan.

³ China's Private-Owned Enterprises Statistical Year Book, 2000-2001, page 554; 2002-2004.6, page 7

⁴ Currency unit is the U.S Dollar, unless otherwise noted.

⁵ Ibid page 554; 2002-2004.6, page 75

3. The total of value of production and retail sale of consumer goods

In 1989, POE made \$1.212 billion the value of production and \$0.475 billion retail sale of consumer goods. In 1995, the two numbers were \$28.688 and \$12.575 billion, respectively. In 2003, they reached \$251.038 and \$132.536 billion. The annual growth rates are 51.71% and 54.12%, separately (See table 3).

Table 3 Growth of Value of Production & Retail income (1989—2003)⁶

Year	Value of Production (billion)	Growth Rate %	Retail income (billion)	Growth Rate %
1989	1.212	--	0.475	--
1990	1.525	25.83	0.537	13.05
1991	1.836	20.39	0.713	32.77
1992	2.562	39.54	1.138	59.61
1993	5.275	105.89	2.375	108.70
1994	14.25	170.14	6.413	170.02
1995	28.688	101.32	12.575	96.09
1996	40.338	40.61	18.238	45.03
1997	49.038	21.57	23.188	27.14
1998	73.163	49.20	38.236	64.90
1999	96.075	31.32	52.388	37.01
2000	134.25	39.73	72.663	38.70
2001	153.963	14.68	78.063	7.43
2002	191.725	24.53	99.125	26.98
2003	251.038	30.94	132.536	33.71
Annual average growth rate		51.12	--	54.37

4 The contributing rate to GDP

In 1989, POE contributed less than 1% to GDP. However, in 2002, the proportion had become 48.5%.⁷

The geographic distribution and industrial fields entered by POE

The research team, *the Development of China's Private-owned Enterprises*, conducts the sample survey around China every two years since 1993. All these investigations showed the difference of geographic distribution of POE was distinct, which mean many more POE located in the south-east while not at inner land. For example, there were 8 provinces at the end of 2003 that owned above 100,000 POEs and took 63.24% of the national POE total. The details are as follows: Jiangsu (343,680), Guangdong (323,077), Zhejiang (302,136), Shanghai (291,711), Shandong (228,554), Beijing (186,805), Liaoning (114,415) and Sichuan (110,359), Except Sichuan province, all of the rest locate at the coastal area. This kind of geographic advantage created wonderful condition for POE to develop export-related industry. In 2003, 74,443 POEs were involved in the export-oriented industry and made about \$21.87 billion foreign exchange.

⁶ *Ibid.*, page 555; 2002-2004.6, page 75.

⁷ For the former socialist economy bodies, POE's share of GDP varied from 20% to 80 % by country. For example, 20% in White Russia, 70% in Russia and 80% in Hungary. Shahid Yusuf, Kaoru Nabeshima, Dwight H. Perkins, *the SOE's Privatization In Transition China*, China Financial and Economic Publishing House, 2006, p4.

At the same time, the industrial range entered by POE are growing wider and wider. Besides the tertiary industry, POE recently had increased its share in the second industry rapidly. According to the sixth survey of China's POE, at the end of 2003, manufacture, trade and restaurant were the main industries the POE engaged and the manufacture industry accounted for 38.2% while trade and restaurant was 24%. In recent years, POE extended quickly to heavy and chemical industry, infrastructure, utility industries, and so on. Actually, some mega-POEs had occurred in metallurgical, auto and electrical industries. From 2003, some monopoly industries, like aviation, telecommunication, and infrastructure, opened to POE and POE has played more and more role in these areas. Two examples: in 2002, Shanghai Fuxi Inc. took over 99.35% share of Shanghai Luqiao, a listed state-owned enterprise. In 2003, the Junyao Group purchased the Yichang airport at the 0.6B.price. Meanwhile, with special authority, POE even can enter the military industry where POE's participation was seriously excluded before.

The contribution to taxation revenue of POE

With the development of POE, they made more and more contribution to the state taxation revenue. In 1989, POE provided only \$0.014 billion taxation revenue to the state and just accounted for 0.05% of the national total taxation revenue. However, in 1995, the number reached \$0.445 billion, and in 2003, it jumped to \$17.353 billion⁸ (See table 4).

Table 4: Growth of Taxation Revenue of POE (1989-2003)⁹

Year	Taxation Revenue (billion)	Growth Rate %	Year	Taxation Revenue (billion)	Growth Rate %
1989	0.014	--	1997	1.131	50.20
1990	0.025	78.57	1998	2.038	80.19
1991	0.043	72.00	1999	3.187	56.38
1992	0.057	32.56	2000	5.18	62.54
1993	0.131	129.82	2001	11.463	121.29
1994	0.219	67.18	2002	11.82	3.11
1995	0.445	103.20	2003	17.353	46.81
1996	0.753	69.21			
Annual average growth rate		69.50%			

The total of employees in POE

In terms of the total employees, only 1.64 million people worked in all kinds of POE in 1989 and just accounted for 1.1% of the total employee number. However, in 1995, 9.56 million people worked in POE, and in 2003, the number became 42.99 million and accounted for 32% of China's total employees (See table 5). This situation is totally different from the SOE¹⁰.

⁸ In China, just the data coming from China's Statistical Year Book doesn't disclose completely the taxation contribution of POE. Besides the tax, the POE also provides the fiscal revenue to the state by extra fees, mandatory donation and etc., which are not included in the data of China's Statistical Year Book.

⁹ China's Taxation Statistical Year Book, 1989-2003

¹⁰ Since 1998, China implemented the policy to the SOE, capturing the bigger and giving up the small and medium SOE. A lot of workers lost their job.

Table 5: Employee Number of POE (1989-2003)¹¹

Year	Employee Number (million)	Growth Rate %	Year	Employee Number (million)	Growth Rate %
1989	1.64	--	1997	13.50	15.29
1990	1.70	3.66	1998	17.10	26.67
1991	1.84	8.24	1999	20.22	18.25
1992	2.32	26.09	2000	24.06	18.99
1993	3.73	60.78	2001	27.14	12.80
1994	6.48	73.73	2002	34.09	25.61
1995	9.56	47.53	2003	42.99	26.11
1996	11.71	22.49			
Annual average growth rate		27.59%			

In brief, within 23 years, China's POE experienced three periods: recovery, growth and development. Since the 21st century, POE, provided about 50% of GDP and had become the strong engine of China's economic growth and the main carrier of employment.

The formation of the class of private entrepreneurs in China and its political action

Private entrepreneur -- a new class in China¹²

This remarkable economic performance induced the formation of a new class in China. In 2002, the China Academy of Social Science released a research report, titled *Structural changes of contemporary China*. Taking career as the categorical criterion, this report divided people into 10 classes: administrator (2.1%), manager (1.5%), private entrepreneur (0.6%), professional (5.1%), clerk (4.8%), individual businessman (4.2%), waiter and retail clerk (12%), worker (22.6%), farmer (44%), the unemployed (3.1%).

Within the 10 classes above, the private entrepreneurs accounted for the smallest part (0.6%) but have drawn the most attention in all walks of the society because of their noticeable great wealth.

The data of the fourth random survey about POE, conducted by the All-China Federation of Industry & Commerce (CFIC) disclosed that, currently, the median value of wealth owned by private entrepreneurs was \$1.3 million, and 12.6% of private entrepreneurs' wealth was above \$10 million, 1.1% beyond \$100 million. The same survey also demonstrated that the average registration capital of POE was \$0.75 millions, but 273,000 POE's were above \$1 million, 201,700 POE's were in the range from \$1 to 5 million, 13,500 POE's were above \$10 million, 219 were above \$100 million. As a result, the report drew this conclusion: *The group of China's private entrepreneurs has shaped into a relatively independent class.*

¹¹ China's Private-Owned Enterprises Statistic Year Book, 2000-2001, page 554; 2002-2004.6, page 75

¹² The data and materials come from the research report, *Structural changes of contemporary China*, posted at this website: <http://www.china.com.cn/chinese/PI-c>

Any change in economic level will be transferred to the political level, sooner or later. With the increase of POE's economic performance and the gradual maturation to be an independent class, its political action became more and more apparent. We can observe this issue from two aspects: the first is the change in POE's political status in different periods since 1979; the second is POE's positive participation and intervention in the political area. As a result, within 23 years, POE's political status has been changed dramatically.

The change of POE's political status

1. from "the eliminated" to "the supplement of socialist economy"

After the socialist restructure from the capitalist industry and business, the private economy almost disappeared in China, and in the following 20 years, the non-public economy was banned completely by the state. Since the reform in 1979, the state eased the regulation, as a result, individual businesses began to reappear both in cities and countryside. In rural areas, some people began to engage in selling or processing agriculture goods, and in the early 1980s, the village and town-enterprises came to the fore and made surprising achievement. In cities, the government also began to encourage and support the development of individual business, mainly forced by the urgent need to settle a great number of youth who came back to the city from the countryside and needed working opportunity¹³. In the early 1980s, some slightly bigger POE with above 8 employees and a substantial amount of capital occurred in some places. However, scholars had different opinions about its nature: socialist or capitalist? And the government also had no clear idea about this issue. A typical example is the Amendment to the Chinese Constitution passed in December 1982, which just admitted that the individual business in cities and countryside was a supplement to the socialist public economy¹⁴, but kept silent about the POE. From 1983—1987, China's POE entered a fast lane and made bigger and bigger progress in many provinces. For example, in Yangyuan, a city of Hebei province, the number of POE in 1985 was 10.2 times the number in 1983; In Anhui province, the number of POE in 1983 was 370, but in 1987 it became 1640, the growth rate was very fast. In the middle and late period of 1980s, the value of production and the total retail income made by non-public sector had taken 1/3 of the national total amount¹⁵. The strong development of non-public sector challenged roughly the related legislation and policy and forced the China Communist Party (CCP) to address the issue. In November 1987, the 13th CCP National Congress enacted the policy to encourage the development of the non-public sector. Further, in April 1988, the National People's Congress (NPC) amended the Constitution and added the clause "the state allows the POE to exist and develop within legal scope. The POE is the supplement of the socialist public economy. The state protects its legal rights and interest and in charge of guiding, supervising and regulating POE". At this moment, POE got legal status in China.

In 1992, Deng Xiaoping affirmed in his south-tour speech that the non-public sector made a great contribution to the cause of China's reform and openness. In the same year, the 14th

¹³ During the Cultural Revolution, China was at a complete standstill, several million graduates from the high school and college couldn't find a job in cities. In 1968, Mao called for the knowledge youth go to the countryside, and in the following decade, 14 million graduates born and growing in cities were sent to countryside to engage in hard agriculture work. After the end of the Cultural Revolution, they rushed back to cities in succession.

¹⁴ 11 clause, Chinese Constitution(1982)

¹⁵ Zhang Houyi, Ming Lizhi, *the report of China's private-owned enterprise (1999)*, the social science academic press (China), 2000 edition, p. 239

National Congress of the CCP confirmed further the policy that the public economy was the main economic force, while the individual business, private and foreign enterprises were helpful supplements; all sectors would co-exist and develop in the long run. In 1993, the third session of the 14th CCP National Congress enacted the policy to establish the socialist market economy. When the political climate became better, the POE embraced an unexpected opportunity to develop them selves. The table 1-2 demonstrates that, in 1993 and 1994, the number of POE increased 70.36% and 81.68%, respectively, and the registration capital increased 208.14% and 112.63%.

2. from the supplement of the socialist public economy to an important component of the socialist market economy

The second improvement of POE's political status took place in 1997 when the background reform of SOE entered a deep-water area touching the sensitive and complicated property rights issue. With the implementation of "seizing the larger and giving up the smaller", "strategic restructure" and "firing the employees to improve the efficiency", hundreds and thousands of workers lost their jobs in SOE and needed to look for new jobs urgently. Taking a look at the economic situation at that moment, only POE could shoulder the heavy burden. In 1997, the 15th National Congress of the CCP confirmed that, "the non-public economy is an important component of China's socialist market economy", which dramatically improved POE to "an important component" from "the beneficial supplement". Just one year later, POE achieved an unbelievable score and satisfied the policy-makers very much. According to the investigation of the employment situation in 66 cities in 1999, conducted by the Ministry of Labor and Social Security, 65.2% of the unemployed laid off from SOE found their new job in POE. POE became a significant supporter of the reform of SOE and got unprecedented acceptability. In March 1999, the second session of the 9th NPC amended the Constitution again and admitted that all kinds of non-public enterprises, such as individual business, private enterprises operating in the legal fields, are important components of the socialist market economy.

From the above description, we observed that, since the reform, China's POE has made great changes in their political status, from an illegal to a legal one, and then to an important component of China's socialist market economy. Surfacely, it seems that the CCP and the state granted all of these to POE, but in essence, all of these changes come from the internal high efficiency of POE and they happened to be in accordance with the government's urgent need to recover and develop the economy. So, fundamentally, POE got the improvement mainly based on its outstanding achievement and contribution. This point is very important, especially when we talk about the political action of POE below.

The political action of POE

Meanwhile, the private entrepreneurs in different areas participated and engaged in political activities. A careful observer can make sense of their many kinds of action, from the amendment of the Constitution to the day-to-day operation of local government. Especially, in a few provinces with developed POE, the private entrepreneurs had grouped together and taken part in the process of local government's decision-making, which added to some extent democratic color to these local government's operation. Actually, some people in China called it a silent revolution.

1. Collective action: private property gained constitutional protection

In 2004, the most noticeable thing in China was that private property gained constitutional protection. The Amendment to the Chinese Constitution stipulated¹⁶ that the citizen's legal properties are inviolable. This was regarded by many people at home and abroad as the most tremendous achievement in China's constitutional history and caught a lot of attention. However, when we searched for the related documents, we were surprised greatly by the continuous efforts made by the all-China Federation of Industry & Commerce (CFIC), a national but quasi-official organization of non-public entrepreneurs. From 1998 to 2004, CFIC submitted proposals to the NPC three times and kept on demanding amending the Chinese Constitution to protect private properties.

In early 1998, CFIC submitted the proposal to the first session of the 9th Chinese People Political Consultative Conference (CPPCC), titled *strengthening the property legislations to protect all kinds of properties*, which included the following requirements:

- ▶ amending the related clauses in the Chinese Constitution to make clear that both the socialist public property and the private property should be sacred and inviolable in order to realize the justice and equality of the law.
- ▶ according to the requirement of the CCP's related documents, removing legislations which hinder the development of POE, and mapping out the law to protect citizen's legal private property as soon as possible .

*“However, at that moment, the POE didn't play great role to the national economy, a lot of people didn't agree with the proposal”.*¹⁷ Therefore, this proposal failed to be accepted by the NPC.

In 2002, CFIC submitted the same topic proposal again. Compared with the last one, this proposal had three points and every point sought to amend the Constitution. (In 1998's proposal, only one point asked for amendment):

- ▶ amending the related clauses in the Constitution to clarify that the state protects citizen's property rights, forbidding any organization or individual from infringing illegally and damaging private properties.
- ▶ adding a clause in the Constitution to protect firms, corporations and individual's properties.
- ▶ clarifying whether the properties of firms and individuals should be nationalized, what the conditions are and how to compensate owners.

The legislation committee in the NPC made a response to this requirement and promised, *“according to the document of the 15th CPP National Congress and the “speech on July 1”, we will consider seriously both the need of China's socialist economy and your requirement, to take*

¹⁶ The 13th clause, Chinese Constitution (2004)

¹⁷ Sheng Xiaohua, the deputy chairman of CFIC

action to establish relative institution".¹⁸ In the same year, similar meaning words appeared in the report of the 16th CCP National Congress, "*strengthen the legislation to protect the property rights*"¹⁹. On November 23, 2003, it was the first time in People's Republic of China's history that the concept, *private property rights*, appeared in the draft civil law that was submitted to the NPC for approval.

In 2004, the CFIC submitted the proposal to the NPC again and sought not only to amend the Constitution but also strengthen the related legislation. On May 14, in the second session of the 10th NPC, the amendment to the Constitution eventually passed.

Comparing the CFIC's proposals with the Amendment to the Constitution in 2004, we would find that the basic content in the Chinese Constitution was similar to the proposals, except adding "legal" in front of the term "private property".

2. Individual's action: joining positively all level of the NPC and the CPPCC

With the increasing of financial resources, not only CFIC but also single private entrepreneurs produced a strong desire to participate in political activities. In recent years, more and more private entrepreneurs took a seat at all levels of the NPC and CPPCC. In 1999, at the national level, 48 delegates in the NPC and 46 members in the CPPCC came from the non-public sector; at the provincial level, 372 in the NPC and 895 in the CPPCC came from the non-public sector; meanwhile, 3 private entrepreneurs took the position of the deputy chairman in the CFIC²⁰. In 2000, the CFIC conducted a survey and investigated randomly 3073 private entrepreneurs and declared that 1495 were either delegates of the NPC or committee members of the CPPCC, and 3 private entrepreneurs were directors of the NPC, 22 were vice director, 433 were standing committee members, 69 were chairmen, vice chairmen or executive chairmen at all levels of the CFIC. Interestingly, 59 private entrepreneurs even took a position in the CCP and the local government department. In 2002 and all around the country, about 9000 private entrepreneurs became delegates of the local NPC, more than 30,000 were committee members of local CPPCC, and 233 became executive committee members of the CFIC, 8 took the position of vice chairmen in the CFIC. In 2003, 15 private entrepreneurs were elected to delegates of the national NPC; 47 became committee members of the national CPPCC. At the same time, Yin Mingshan and Xu Guanju, two private entrepreneurs with a great amount of wealth, became deputy chairman of the provincial CPPCC, Chongqing and Zhejiang province, which created a lot of attention in China.

We owe the dramatic increase of private entrepreneurs' participating in political activities to the easing political climate in that period, but this is only on the one hand. On the other hand, it stemmed from private entrepreneurs' strong desire to look out for their personal and property security. All of this sent a clear message that private entrepreneurs growing up on the edge of China's socialist system had passed the primary phase just for money, based on the strong motivation of seeking personal and property security, their political desire is becoming stronger and stronger. However, from the historical perspective and real experiences, it's not enough for any class that wants to play a role in the national political life just depending on a few single

¹⁸ Mu Jia, *behind three proposals of requiring amendment of Chinese constitution: a talk about the legislative of the protection of private properties*, China's Privately Run Enterprises review, 2004-3, page 10-12

¹⁹ *Ibid*

²⁰ Li Peilin, *china's society structure*, the Social Science Academic Press(China), 2004 edition, page 334-5.

persons intervening occasionally in the current political system. To be a distinct class with a great number of members, it must be organized to participate in all levels of political negotiation as a group. Only in this way can it gain the sustained force to move forward. The rise of the Wenzhou Chamber of Commerce (WCC) gave us an exact example.

3. The rising of the third sector: take the Wenzhou Chamber of Commerce (WCC) as example ²¹

Wenzhou, a city in Zhejiang Province, is located in the southeast coast of China. Because of its special geographic site, people living here have a long tradition to do business and engage in the small handicraft industries. Early in 1903, some chambers of commerce had occurred in Wenzhou. However, after the establishment of the P.R. China in 1949, like the fate of all social organizations, WCC experienced several periods of restructuring, shrinking and silence. Therefore, when China started to reform and open to the outside, there was not a chamber of commerce in Wenzhou any more.

After the release of Deng Xiaoping's speech in south China in 1992, the WCC was reactivated. In this period the Wenzhou CFIC set up 19 industrial Chambers of Commerce, like furniture, clothes, glasses, hardware, artificial leather, etc. Even in some villages and towns, Chambers of Commerce occurred, too. Since 1995, the WCC began to set up branches in other cities, firstly in Kunming, and then in Shenyang, Harbin, Changchun, Tianjing, Yingchun and Xian. Actually, the WCC nowadays exists in almost all large and medium cities in China. By 2003, there were 114 Chambers of Commerce in Wenzhou city. Plusing the number in counties and districts belonging to Wenzhou, there were together 321 Chambers of Commerce, which consisted of 42,624 member firms that almost covered all kinds of industries in Wenzhou.²²

Different from those official or quasi-official social organizations in China, WCC in general are civil and self-administrated. The firms join the WCC voluntarily and elect the leader democratically; the WCC hires staff, raises money and manages itself independently, which makes the WCC neither public nor private sector, but something between them, a third sector. We can observe its influences as the following:

Firstly, the WCC took over some economic administrative functions run by the government before. According to the conclusion of Yu Jianyin, these transferred functions include those, in terms of any particular industry, self-disciplined, self-examination or evaluation and price-setting. For instance, the Furniture Chamber of Commerce stimulated 27 regulations to administrate its member firms, and the Hardware Chamber of Commerce regulated the agreement to protect the member's patent rights, a regulation that was commended by officials in the central government as a beneficial supplement to the Patent Law.

Secondly, to some extent, the WCC influences and participates in governmental decision-making. The essence of the Chamber of Commerce is gathering the common interests scattered among single firms and seeking beneficial public policy. The WCC effectively gathered and

²¹ Data and cases in this section come from chiefly related chapters in the book, *Between the Government and the Enterprises: take Wenzhou Chamber of commerce as case*, written by Yu Jianxin, Zhejiang People's Press, 2004

²² At a whole, China's Chamber of commerce is still in infant period .only in a few cities, like Wenzhou, merchants organized Chamber of Commerce according to different industries. Because Wenzhou merchants go to other places to do business and there are no Chamber of Commerce in these cities, they took their Chamber of Commerce to other cities. This situation is different from The U.S.

filtered the single firms' interests, transferred them to a particular requirement and input it into the government's process of decision-making to seek the beneficial policy. For example, they provided detailed statistical data to the government, participated in the project of planning the particular industry's development and helped the government to map out the entry condition and technology standard. Moreover, the WCC positively recommended private entrepreneurs to be candidates for the local NPC and CPPCC. For instance, in 2003 the WCC recommended 141 private entrepreneurs to be delegates or committee members in the local NPC and CPPCC. On behalf of private entrepreneurs, they submitted 54 proposals and most of them were resolved satisfactorily.

Finally, the WCC strongly resisted some bad actions of the government.

In 1997 and 2001, when some vehicles of member firms were detained unreasonably in Anhui and Jiangshu Province, the Shipping Chamber of Commerce reported in a timely manner to the Wenzhou government, at the same time, on behalf of its member firms, they negotiated positively with the local governments where the vehicles were detained and eventually protected the member firms' interests successfully. In Wenzhou, the Food Chamber of Commerce resisted the unreasonable fees collected by the government and eventually got the permission not to pay. The Retail Chamber of Commerce called its members to refuse to pay extra house rent and got an 800,000 Yuan exemption.

Western political theory states that NGO are necessary precondition and important supporters to democracy and their diversity is helpful to improve the democratic structure of a society. In China, through taking over some governmental functions, recommending candidates to the NPC and CPPCC, submitting proposal, WCC injected a "public" element into the closed, one-way process of governmental decision making, which not only protects its own interest but also corrects governmental behavior and increases the acceptability of the public policy. It is on this point that we believe that POE represents an important force stemming from China's internal society and probably can change China's current political model from its root and will play an extraordinary role on China's future.

Fiscal Consequences

Governmental finance lies on the boundary between politics and economics. The development of the economy determines the financial ability of the government, and in turn the political system decides how to allocate public money. From the state prospective, POE's outstanding economic performance not only makes itself become the main contributor to GDP but also improve its political status. Meanwhile, in some provinces where POE develop very fast, POE further made itself the main provider of public money, more importantly, it also made itself the main beneficiary of some public policies. Unexpectedly, in a few provinces with developed POE, POEs have been proceeding to supervise and criticize the governmental budget, which unintentionally improved the democratic degree of the governmental operation in these provinces. We will take two provinces, Zhejiang and Guandong, as example to observe the fiscal consequence of POE.

The achievement of Zhejiang

Zhejiang Province is located in the south-east coastal area and has poor natural resources. In the period of Planned Economy, the state invested very little in this Province with the consideration of its difficulty to defend. As a result, Zhejiang had a few big SOEs. However, people in Zhejiang have the strong tradition of business from Qing dynasty. Since China began to reform and open to the outside, Zhejiang has become one of the most developed areas in China just by its geography, strong tradition and hard-working spirit. In 2003, there were all kinds of POE, 0.301M in number, and accounting for 10.05 % of the total national number. Compared with other Provinces, POE in Zhejiang has passed the scattered, small-sized and isolated stage, and is moving forward to collaboration. A great number of large groups, accounting for a big share in the domestic and oversea market have been established, such as ZHENTAI Group and DELIXI Group. In the list of China's 500 top POE released in 2003, 188 are located in Zhejiang, and in the same year, POE made 70.1% contribution to Zhejiang's GDP.

The strong development of POE continually improved the financial ability of the Zhejiang government. Compared with other Provinces, the ability of Zhejiang's financial self-support is number 1 in China. Since 1995, Zhejiang achieved a balanced budget in the past 10 years, and is the only Province in China to pay the salary of the administrators and teachers just with the provincial revenue. Until 2001, the annual fiscal revenue of 48 among the total of 62 counties reached 100 millions. This situation is completely different from other Provinces that were in terrible financial situation, partly because of the implementation of the Sharing-Taxation²³ since 1994.

Meanwhile, the "public" color in Zhejiang governmental finance is much stronger than other provinces. Firstly, in recent years, the ratio of public expenditure/government expenditure in Zhejiang was higher than the average national level. From 1997 to 2001, the average ratio is above 60%, and the share of spending on education and health care accounted for 48.61%. Secondly, the coverage of governmental finance in Zhejiang was beyond state-owned enterprises and cities, but face to POE and rural people at the same time. For example, early in 1998, Zhejiang introduced the policy that, no matter if the firms are public or private, if they engage in some special industries that the government favored, such as innovation, anti-pollution, energy saving, etc., the government would pay the interest to the banks instead of firms themselves and also provide related policy preferences. In 2004, Zhejiang became the first province in China to expand the scale of the minimum living guarantee to all citizens, covering the rural people. In Wenzhou, the government even covered all citizens in the retirement security net, and set up welfare buildings to take care of the senior and disabled people, which makes Wenzhou the first city in China to solve the difficulties for disadvantaged people of living, housing and health-care.

²³ China employed Sharing-Taxation system in 1994. The main content are the following: based on the different responsibilities among all level governments, all kinds of taxation are divided into three categories: the central government's revenue, the provincial government's revenue and the sharing-revenue between them, some taxation generating mostly revenue, such as the value added tax and corporation income tax all belong to the sharing-taxation. Meanwhile, the central government will return and transfer some money to the provincial governments according to the number of the revenue and expenditure in 1993 and the practical financial situation, respectively. However, because of the limited transfer payment, most provincial governments are forced to face great financial gap and have tough financial situation after 1994.

The phenomenon of Guangdong

Guangdong Province is close to Hong Kong and is the bridge connecting China's inner land with the outside world. Since 1979, Guangdong had become the "window" to the foreign countries and Shenzhen, a closest city to Hong Kong in Guangdong, was one of the economic special areas permitted by the central government. Taking advantage of the policy, a lot of POE enterprises grew up and engaged in the export-related industry and got great result. POE had early become the backbone to the provincial economy, and the amount of wealth owned by the private entrepreneurs was No.1 in China. In 2001, there were 2.85M non-public firms, including 60,000 foreign investment corporations, 0.227 million POEs and 1.67 million individual businesses, which realized 67.3 billion value of production and \$1211.9 billion retail income, absorbed 8 million people to work and generated \$225.3 billion taxation revenue to the government. Compared with Zhejiang Province, the size of Guangdong's POE was much bigger, there were 300 POE with above 10 million registration capital and 41 beyond 100 million, 240 corporation groups had been established.

The strong financial ability and the great taxation contribution enable the private entrepreneurs in Guangdong to surpass the phase of just waiting to be accepted by the government. Instead they have moved forward to the advanced position of being able to criticize and supervise the government, which unexpectedly speeded up the democratic process of the governmental budget. In Shenzhen, the first special economic zone in China, it was early in 1995 that its NPC set up a planning and budget committee. In the following years, the Shenzhen NPC stimulated a series of regulations, such as *the regulation of examining and approving the plan and budget of Shenzhen's economic and social development* (1997), *the supervising regulation of Shenzhen NPC Standing Committee* (1999), *the regulation of governmental procurement*, and *the regulation of governmental investment management* (1998). In 1999, Shenzhen started the pilot departmental budget reform, the first such in China. In 2001, it extended the reform and covered 1/3 of the governmental departments and then included all in 2002. In 2003, Shenzhen firstly introduced performance auditing and audited 4 mega-projects, disclosed some serious mistakes in managing the public money and started the public wave to fight the waste.

In Guangdong Province, early in 1998, the financial committee, a subcommittee of Guangdong NPC, drafted a regulation on approving and supervising the governmental budget and was passed formally in 1999. The regulation required that the governmental budget must be made as detailed as possible. From 2001 to 2003, the number of the government departments that employed the department-budget increased from 7 to 27 and then all, and the pages of the budgetary report increased from a few pages to 144 pages and then to 605 pages. It was so detailed that even if the government bought a computer, its type and configuration must be shown in the budgetary report. In 2004, the internet of the Guangdong Bureau of Finance was connected to the net of the Guangdong NPC, which made the former totally become the "Glass wallet". In 2005, the performance audit was employed in the whole Guangdong Province.

The achievement of Zhejiang and the phenomenon of Guangdong typically demonstrated that, in contemporary China, the more advanced the private economy is, the better the governmental finance situation is; furthermore, the stronger the private economy is, the faster the democratic process of the government budget is. The increase in democracy is not only shown by the increase in money spent on education and health, but also the general public, represented by the private entrepreneurs, strengthened supervision and control over the governmental budget. Based on the viewpoint that the management of finance is the core and starting-point of all

governmental action, so any change in governmental finance just mirrored the change in China's political and administrative situation. For many reasons, this kind of change is much more direct and apparent at provincial level than at the central government level.

Conclusions

The resurrection and prosperity of the POE in China prove again that private property rights generate high economic efficiency.

One must admit that, in China's reform, it was not the original intention to develop POE for the CPP and the state. By contrast, it is an unintended by-product that POE's dynamic development and the increasing backbone role we observed above. In China, the core of reform is the reform of state-owned enterprises. From 1978 to now, the state has spent tremendous energy and a great amount of financial resource on SOE, and tried all possible methods to improve their economic performance. However, the result by far is not optimistic mainly because of the inherent inefficiency of the public property rights.

By contrast, all kinds of non-public economy, except some village and town-owned enterprises in some provinces, established a clear ownership structure from the first day when they were established, which provided sustainable incentive force and instantly led to dynamic growth. Actually, POE by far has become not only the main engine of China's economic growth and the chief creator of working opportunity, but also the main shoulder to bear the grave pressure generated by two facts, one that interim WTO granted to China to protect its infant industries is close to the end, and the other China's rapid urbanization. People place huge hope on POE to play an important role to speed up the process of urbanization and optimize industrial structures. Therefore, China's more than two decades of reform can be described as having two correlated parts: the shrinking of the SOE and the prosperity of the POE.

This reverse maybe an unintended result for the designer of China's reform, but it is reasonable, especially in term of the nature of different property rights. China's reform proved an unquestionable law again that had been justified again and again in human history: private property rights always generate far higher economic efficiency than public property rights.

The increasing political influence of POE in recent years comes from the private entrepreneurs' positive effort to seek their personal and property security and the state's reasonable compromise forced by the serious economic pressure under the new situation.

At the beginning of the reform in 1978, China's economy almost reached the edge of collapse. When China opened its closed door to the outside world, the huge difference between the developed countries and the developing countries shocked Chinese leaders gravely. In the late 1980s, the new informationalization and globalization occurring in developed countries enlarged the possibility to sharpen this difference further. At the same time, after two decades of unbalanced economic growth, China is encountering the serious disparity among the different areas and between cities and rural areas. All of these forced the Chinese government to shift its emphasis to develop the economy. Under this situation, POE's outstanding contribution to GDP, taxation revenue and employment are greatly subject to the new urgent needs of the state and thus get a big space to survive and develop.

Like in any times, the private entrepreneurs always produce strong political desire after they make great profit. In P.R. China, the state suppressed the private economy for several decades, so the unsafe feeling of private entrepreneurs was extremely strong. Therefore, once they passed the initial phase of making money, private entrepreneurs shifted quickly to the political area in order to seek security for their personal properties. Basing on their economic contribution, taking the organization form of Chamber of Commerce, through the channel of the NPC and CPPCC, private entrepreneurs have positively intervened in the national political life and rapidly became a noticeable player. As mentioned above, they had played a significant role in China, up from amending the Constitution and down to participating in the daily operation in the local government, etc.

The political activities of private entrepreneurs are helpful to improve China's democracy. However, it is urgent to introduce public and institutional mechanisms to let people express their interests legally.

All kinds of non-public sector's political participation had changed the model of Chinese government's design-making, shifting gradually from one-side to multi-side participation. In the short term, it can not only improve the acceptability of public policy but also correct the behavior of the government. In a long run, this participation of the taxpayer injects the democratic element into the governmental operation, which will have a tremendous and profound influence on China's democratic politics and public finance.

However, if there is no public and institutional mechanisms to let all people of the society express their interests, it is possible that the private entrepreneurs' rational process of seeking personal and property security will lead to the dangerous collusion between power and money. Actually, this problem has already occurred; we can observe it from the selling of the SOE, the requisition of agricultural land and monopoly in some marketplaces. Speaking deeply, it is not that private entrepreneurs should not protect their own interests, and not that POE is the source of the evil, but how to accommodate other people's interests when private entrepreneurs realize their interests. This process, in essence, is the process whereby all people in the society voice their interest publicly and legally. In other words, it is the process of introducing and establishing democracy. For today's China, the most urgent task is to establish this institutional democratic mechanism as soon as possible. Only in this way, on the one hand, can China make good use of POE's economic advantage, and on the other hand, restrain their great profit-making impulse into a controllable area to prevent serious social unrest.