

China's Private Economy: Development and Contributions

Since the reform and opening-up, it has been a very important phenomenon that the rapid development of private economy in China's economic life. Along with the mixed economic structure's forming with the public ownership as a main part, private economy will take more and more strong affection in the sectors of employment, promoting economic growth, cultivating the principal part of market, and improving market development etc.

The general developing situation of private economy after China's reform and opening-up

Private economy refers to private-owned economy on the basis of hired laborer. During the early days of liberating (1949---1952), private economy was allowed to exist in China, but because of some political reasons, the scale of private economy became smaller and smaller even disappeared completely after 1957.

After the reform and opening-up, the destiny of private economy took changes step by step, private economy's social economic change experienced 3 stages. The first stage: 1978---1987, no status. At that time, although private economy got the approval of government and public, it was excluded by public economy. The second stage: 1988-1997, supplementary status. After a period of developing, the scale of private economy were larger and larger, the affection became stronger and stronger, so its status were promoted. In April of 1988, it was added into the China constitution Amendment: "Private economy can exist and develop within the limits permitted by law." The third stage: After 1997, the status of private economy and other non-public economy were promoted to "the important component of market economy".

The following table (Table 1.) shows the development of private economy in China since 1989.

Table 1

Year	Number of private economy		Number of Employee		Registered Capital	
	Number	Growth over last year (%)	Number (in thousand)	Growth over last year (%)	Number (Billion Yuan RMB)	Growth over last year (%)
1989	90,581		1,640		8.4	
1990	98,141	8.3	1,700	3.7	9.5	13.1
1991	107,843	9.9	1,840	8.2	12.3	29.5
1992	139,633	29.5	2,320	26.1	22.1	79.9
1993	237,919	70.4	3,730	60.8	6.81	208.1
1994	432,240	81.7	6,480	73.7	14.48	112.6
1995	654,531	51.4	9,560	47.5	26.22	81.1
1996	819,252	25.2	11,710	22.5	37.52	43.1
1997	960,726	17.3	13,490	15.3	51.40	37.0
1998	1,200,978	25.0	17,100	26.7	71.98	40.0

Source: *The Report about the Development of China's Private Economy (1978---1998)*, China Social Science Literature Press, 1999.

Why could private-owned enterprises develop so fast after 1980's? Besides the political reason (supported by government) and the revolution of ideological sphere, it had deep economic basis.

1. The development of China's agriculture caused a large number of grain surplus, it was the primal property terms for the birth of private-owned enterprises. And the surplus laborers became the main source of private enterprises.
2. Growing marketing demand was the foundation of private economy's development. The great increase of both urban and rural residents' income, drove a rapid expansion in consumer

goods market and service market, it supplied very good chances for the development of private economy. China's private economy firstly grew in the fields of commerce trade, catering trade and transportation.

3. The development of individual economy took the development of private economy. During the period of developing, individual economy's capital scale became larger and larger, output value became higher and higher, and the number of employee became more and more, then the individual economy itself became private economy gradually.

Mapamond

4. The strategic reorganization of state-owned economy resulted in some enterprises changing from state-owned to private owned. After the middle of 1990s, it has taken great changes in the

reform of state-owned economy, most of state-owned enterprises in small scale were sold to private enterprises or individual, so they became private owned enterprises.

The Contributions of Private Economy

The contributions in output value.

Table 2 Unit: Billion Yuan RMB; %.

Year	Output Value	Growth rate	Growth rate of GDP	Value of retailing Consumer goods	Growth rate	Rate out of total retailing
1989	0.97			33.7		0.42
1990	1.22	25.8	9.7	43	26.5	0.52
1991	1.47	20.5	16.6	57.6	32.6	0.61
1992	2.05	39.5	23.2	90.7	59.6	0.83
1993	4.22	105.9	30.0	190.5	108.8	1.52
1994	11.40	170.1	35.0	512.6	170.0	3.15
1995	22.95	101.3	25.1	1,006.4	96.1	4.88
1996	32.27	40.6	16.1	1,458.6	45.0	5.89
1997	39.23	21.6	9.7	1,854.7	27.1	6.80
1998	58.53	49.2	6.6	3,059.3	64.9	10.49

Source: *Statistical Communiqué of the People's Republic of China (1999)*; China Statistic Press.

From table 2, we know that in 1989, the output value of China's private economy was 9.7 billion Yuan RMB; in the year of 1998, it went up to 585.3 billion Yuan RMB, the growth rate over 20% per year. In 1994, it reached 170.1%, far more high than that of GDP of the corresponding period.

The contributions in department. Before 1990s, most private enterprises were in the rural area; after that, more and more private enterprises were established in urban. Private economy became a new increasing point of urban

economy, and the rate of the tertiary industries rose steadily.

It is showed in table 3 that private enterprises were distributed in the following 6 fields: manufacturing industry, commerce and catering trade industry, construction industry, social service industry, culture and education industry and agriculture, forestry, animal husbandry and fishery.

Table 3 The departmental distribution of private economy (rate out of total). Unit in rate: %

Department	1990	1991	1992	1993	1994	1995	1996	1997	1998
Tertiary industry	28.2	29.7	34.7	44.4	45.8	48.5	50.8	53.5	55.7
Secondary industry	71.8	70.3	65.3	55.6	53.5	50.4	47.9	44.8	42.2
Primary industry					0.7	1.1	1.3	1.7	2.1
Total	100	100	100	100	100	100	100	100	100
Urban area	38.4	41.7	47.5	55.5	55.8	56.8	59.6	62.1	Na.
Rural area	61.2	58.3	52.5	44.5	44.2	43.2	40.6	37.9	Na.
Total	100	100	100	100	100	100	100	100	100

Source: *The report about the development of China's private enterprises (1978---1998/1999)*; China Social Science Literature Press.

The contributions in employment. Nowadays, private economy is an important channel in China's labor employment. Table 4 shows that more and more laborer

come to private enterprises to find a job, it solved the big problem for those who lost their jobs in state-owned enterprises.

Table 4 Unit in rate: %;

Year	Employee number in Private economy	Growth rate	Growth rate out of total society	Contribution rate of private economy
1989	1,640,000	Na.	Na.	Na.
1990	1,700,000	3.66	15.51	0.07
1991	1,840,000	8.24	1.39	1.57
1992	2,320,000	26.09	1.17	6.36
1993	3,730,000	60.78	1.25	17.22
1994	6,480,000	73.73	1.24	33.29
1995	9,560,000	47.53	1.11	41.18
1996	11,710,000	22.49	1.33	23.81
1997	13,500,000	15.29	1.09	23.87
1998	17,100,000	26.67	0.51	100.84

Source: *Statistics Communiqué of the People's Republic of China (1999)*; China Statistic Press.

Mapamond

The contributions in tax revenue. From 1990 to 1997, the growth rate over 30% per year, the average growth rate is 73.2%. But in general situation, the tax contribution of private economy was little. In 1989, the tax revenue of private economy was only 0.112 billion Yuan RMB, and it was no more than 10 billion in 1997. The rates out of the total national tax were only 0.06% and 1.14%.

Other contributions. The growth of private economy created a competitive market environment for state-owned economy and collective-owned economy; A large number of excellent managers grew in private enterprises; some of private enterprisers were fond of social charities, they donated about 10 billion Yuan RMB to help poor people and education industry.

Promoting the development of private economy

Now the world economy has entered a new various assortments, small batches and cooperative production, therefore, small-scale enterprises will have vast developing spaces. Because most private enterprises are of middle or small scales in China, so promoting the development of private economy has a special importance.

Firstly, China has the biggest population and labor force over the world; employment is a very severe problem for the government. Private economy can offer more chances for workers.

In a period of future, non-public economy that includes private economy will be an important channel for new labor force and re-employment of laid-off in state-owned enterprises.

Secondly, as the changing of the social wealth distribution and property structure, China's private economy will continue developing. After reform and opening-up, the distribution pattern of GNP took a great change; people's income kept increasing in the proportion of GNP. It caused vast consumer surplus, and the surplus will transform into accumulation of capital during the economic developing. The accumulation of capital will bring along the development of non-public economy.

However it is a little tough to impel private economy to make further development. Besides private economy makes effort by itself, private economy needs supports both from the government and the public.

1. Capital support. Because of the small scale and small batches, private enterprises are lacking in capital for further development. If the government especially financial institution can grant loan or lend some money with special policy to private enterprises, such as budget appropriations, assets

shareholding corporations, etc. The big problem that hinders the development of private economy will be solved.

2. Technology supports. At present, China's private enterprises cannot do more in technology innovation due to their limited strength. So the government should give support in encouraging technology research and transforming the research achievements into actual production, encouraging scientific workers to take part-time jobs in private enterprises.
3. System innovation. A large number of private enterprises carry on family-control management system. This can easily bring out exclusion and appointing people by favoritism. The government should lead private enterprises to adjust their property system and management system.
4. Service support. Include strengthening law enforcement, removing monopoly, also providing information service and consulting service etc.

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appropriations, reorganizing some enterprises to