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# **CHINESE PRIVATE SECTOR DEVELOPMENT IN THE PAST 30 YEARS: RETROSPECT AND PROSPECT**

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# **CHINESE PRIVATE SECTOR DEVELOPMENT IN THE PAST 30 YEARS: RETROSPECT AND PROSPECT<sup>1</sup>**

Hongliang ZHENG and Yang YANG<sup>2</sup>

## **Abstract**

Promoted by the reform and open-door policy, China's private sector has grown dramatically over the past 30 years from "being constrained or even forbidden to develop" to its current status of "an important constituent of the socialist market economy." While its development has been full of obstacles, its growth trend has been unstoppable. Major challenges facing the Chinese private sector includes a) the fundamental dispute over its nature – whether it is "socialist" or "capitalist"; b) whether owners of private enterprises should be allowed to join the Communist Party and have voting rights, c) its collective "red-cap" tag and protection of private properties; and d) allowing market entry for private enterprises and equal competition. These issues have sparked intense arguments both within the business sector and among economists in China but shown an unnoticeable impact on China's reform policy. Based on a systematical review of theories and practices in the Chinese private sector, this paper looks back at the arguments over the above-mentioned issues and proposes some directions for the sector's future development.

**Key Words:** Reform and Open-door Policy, Development of Private Sector, Theoretical Contention, Explorative Reforms

# **Development of Chinese Private Sector in the Past 30 Years: Retrospect and Prospect**

Hongliang Zheng and Yang Yang

## **INTRODUCTION**

Promoted by the reform and open-door policy, China's private sector has grown dramatically over the past 30 years, from "being constrained or even forbidden to develop" to its current status of "an important constituent of the socialist market economy." While its course of rapid development has been full of obstacles, the trend has been unstoppable. In the development course, there is no doubt that explorations of bi-directional and interactive models of reforms including "from bottom to top" and "from top to bottom" play a crucial role, alongside bold and intense debates among economists. Through a systematical review of theories and practices, this paper looks back at the arguments of certain critical issues concerned with the development of the Chinese private sector. It furthermore proposes some of the directions for future development.

## **EMERGENCE OF PRIVATE SECTOR**

According to traditional theories, an individual economy is recognized as an economic pattern of capitalism which produces "capitalism" by the minute. The private sector belongs to capitalism too because private means of production and exploitation through the hiring of labor exist there. Therefore, before China's reform and open-door policy, the Chinese private sector was treated as "the tail of capitalism" that had to be cut. But in reality, especially in the vast lagging rural areas, the "tail of individual economy" was not "cut" completely, such that private plots, family sideline businesses and bazaar trade still survived, reasonably but illegally to some extent. When the reform and open-door policy swept through China, productive forces like those mentioned above mushroomed after a long period of suppression.

Firstly, the individual economy in rural areas was acknowledged. Held in December 1978, the Third Session of the Eleventh National Congress of the Communist Party of China (CPC) clearly stipulated that private plots, family sideline businesses and bazaar trade were essential supplements of the socialist economy, with which nobody was allowed to interfere randomly. Decisions on certain issues related to accelerating agriculture development -- approved at the Fourth Session of the Eleventh National Congress of the CPC in September 1979 -- also pointed out that while diversified operations of commune and production teams constitute the socialist economy, private plots, private livestock-rearing, family sideline businesses and rural bazaar trade were supplements of the socialist economy and were therefore not allowed to be criticized as "the tail of capitalism."

Secondly, the individual economy in urban areas was recognized. Xue Muqiao, an economist who was a consultant of the State Planning Commission, said in one of his papers that production relations must accord with the nature of production forces. The viewpoint that public ownership superseded collective ownership under any condition did not belong to Marxism; not only should collective ownership be encouraged today, but individual labor should not be rooted out in the urban areas (Xue, 1979). After that, the Constitution of the People's Republic of China approved by the Fifth National People's Congress in December 1982 definitely provided that the individual economy in cities and the countryside were within legal restrictions and supplements of the socialist public economy. The role and effect of the individual economy were recognized by law, which promoted the recovery and development of the urban individual economy.

Thirdly, the attitude to the advent of private sector characterized by hiring labor was to "wait and see," which meant to acquiesce and protect its development. When the individual economy in cities and the countryside grow to a certain extent, proprietors have to hire laborers in order to expand their scale. Should the hiring of laborers be allowed or forbidden? How many people are permitted to be hired? These were sensitive and confusing problems. At that time, the State Council prescribed that if necessary,

individually-owned business could hire helpers and apprentices, the total of which must not be more than seven<sup>3</sup>. But this limit was broken within a very short time. In various regions, employers who employed more than 10, or even dozens of employees, emerged. Thereafter, the private sector faced resistance from traditional schools of thought. Didn't it amount to exploitation when the number of employees is more than seven? Can a socialist country adopt a capitalist economy? Many people treated the private economy with suspicion and opposition. In view of this situation, after careful research, the Central Committee of the Political Bureau of the Chinese Communist Party (CPC) clarified that the private sector did not pose an attack on socialism and that one could wait and see. On 1 February 1983, the Central Committee of the CPC emphasized this notion in its No. 1 Document on Certain issues of the Current Rural Economic Policy that it was better not to encourage, publicize the proprietors or private enterprises that employ many laborers, and it was not in a hurry to ban them. The "Three Noes" policies of the Central Committee that followed this rule of practice, respecting the people's choice, virtually acknowledged and protected the emergence and development of the private sector.

### **BREAKTHROUGH IN PRIVATE SECTOR AS "SOCIALIST" OR "CAPITALIST"**

In practice, the private sector expanded greatly due to the implementation of the reform and open-door policy, which at the same time created suspicions in society. In view of this situation, the CPC Central Committee finally explicitly put forward a four-sentence, 16-character guideline which could be translated as: "to allow existing, strengthen management, promote what is beneficial, abolish what is harmful, and guide step by step." In October of the same year, the Thirteenth National Congress of the CPC further clarified issues concerning the private sector, stating that the development of the private sector was to some extent beneficial to the promotion of production, and that it stimulated the market, increased employment, and satisfied various necessities of people's lives. The private sector is an essential and profitable supplement to the publicly-owned economy. It is necessary to establish policies and laws concerning the private sector as soon as possible so as to protect its legal rights and benefits and reinforce guidance, supervision and management of the sector. These statements from

the Thirteenth National Congress of the CPC greatly contributed to the growth of the private sector and meanwhile gave rise to intense arguments of related issues among economic theorists, which in turn promoted the growth of the private sector at the same time.

But since 1989, the private sector has stagnated. Among political critics, there was a group that advocated restricting the development of the private sector and deemed that the sector represented an attack on the dominant position of public ownership, and a cause of social inequity. It could be said that economists in those days were involved in ongoing debates about whether the nature of private sector was "socialist" or "capitalist." For example, some newspapers held that if the private economy was left to its own devices, it tended to damage the socialist economy. Some newspaper articles even asked: Do people who advocate liberalization have economic roots? Were they backed by economic power? Their conclusion was that private enterprises and self-employed people formed the economic root of bourgeois liberalization. Against this background, quite a few entrepreneurs lost their confidence in the private sector. They then took measures such as contributing their firms to the collective, turning private property into public property owned by the collective, becoming affiliated to public firms or units, becoming "red-cap" firms; converting to stock cooperatives, changing the nature of the firm, closing their businesses and cancelling their firms' registrations (Wang & Yang, 2007).

In 1992, Deng Xiaoping's speech during his tour of southern China marked a turning point. He pointed out that the fundamental reason for misgivings and fear about the reform and open-door policy was that people were afraid to take the capitalist road if too many capitalist elements existed. The crux of the issue lay with whether the nature of the private sector was "socialist" or "capitalist." The criteria for judgment should therefore be whether it was beneficial to develop the production forces of socialist society and to reinforce the national strength of the socialist country and increase people's living standards (Deng, 1993, p.372). Deng's speech overcame the political difficulties raised by those arguments about the nature of the private sector and created a relaxed

environment for academic research and the growth of the private sector. In October in the same year, the Fourteenth National Congress of the CPC announced that the objective of the Chinese economic system reform was to establish a socialist market economy. It proposed that various economic sectors develop side by side in the long term and that different economic sectors were permitted to operate under diverse forms of joint-operation, while emphasizing the acceleration of reform without being tied down by abstract debates about the nature of the private sector. By September 1997, the Fifteenth National Congress of the CPC explicitly confirmed that the non-public sector was an important constituent of the Chinese socialist market economy, signifying a breakthrough in ownership theory and cognition of the non-public economy. The private sector was no longer only a supplement, becoming an important constituent.

During this period, whether the nature of private sector was "socialist" or "capitalist" was central to the argument of whether the development of the private economy in China was a good thing or a bad one. In other words, a "capitalist" private sector was harmful to Chinese economic development while a "socialist" one was beneficial. Before Deng Xiaoping's speech during his Southern China tour, and around the time of the Fifteenth National Congress of the CPC, theorists had disputed this issue. One view was that the development of the private sector could jeopardize national stability. The proportion of the non-public sector might not only incur a fundamental change in the basis of the socialist economy, but might also change the socialist superstructure. Many scholars held a negative opinion of this viewpoint. They thought that the main problem was not about which was good or bad (i.e. socialist or capitalist), but whether the private sector should be banned in China at that time. Some other scholars regarded the private sector within the context of system transformation and market growth. They believed that the private sector, having made progress during the economic system reform, had relaxed the economic structure as a first step, and viewed that the new ownership structure in which the previously-dominant public ownership coexisted within various economic sectors was a substitute for pure public ownership, therefore promoting market-oriented reform.

Development of the Chinese private sector accelerated after the problem of the private sector's nature was overcome. The number of individual-owned businesses increased to 24.64 million in 2005 from 0.14 million in 1978, while total capital investment amounted to 580.95 billion RMB, with total employees of 49 million. Since the late 1980s, private enterprises in China had grown continuously at 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. The individual and non-public sectors have become important drivers of economic growth and employment (Table 1 and Table 2).

TABLE 1 [HERE]

TABLE 2 [HERE]

### **CLASS DIVISION: OWNERS OF PRIVATE ENTERPRISES**

Along with the development of the private sector, there were hot debates about the status of owners of private enterprises in Chinese society, the demarcation of social classes; and whether owners of private enterprises could be admitted into the CPC and seen as model workers. One viewpoint held that owners of private enterprises in China did not constitute a stratum but had become or were becoming a class of their own (Ge, 1991). Many scholars held an opposite opinion in that although owners of private enterprises in China had begun to take shape as a social stratum with a unique economic position and specific interests, they did not yet constitute a class (Zhang & Liu, 1995, p.292).

There were also arguments about whether owners of private enterprises could be selected as model workers. Advocates considered that the individual and private sectors had become important constituents of the socialist market economy, leaning on guidelines defined at the Fifth National Congress of the CPC which reassured that China would keep the public sector dominant while allowing diverse economic sectors to

develop simultaneously. The guidelines also required that the selection of model workers emancipated the mind, updated the concept, and went beyond the framework, so that qualified owners of private enterprises could be honorably selected as model workers. But opponents thought that non-laborers, for example capitalists, could not be model workers because it was obvious that they were not workers. This logic is being challenged nowadays.

A more sensitive issue -- whether the owners of private enterprises could join the CPC -- had also led to lively controversies. Supporters believed that admitting the owners of private enterprises into the Party did not necessarily mean bringing in the whole stratum of owners of private enterprises. Only qualified people could be admitted. The CPC had never refused applicants who met its criteria even if they belonged to the non-worker strata. Frederick Engels for example had run his own private enterprise. Opponents argued that if owners of private enterprises were permitted to join the Party because their greater wealth represented more production force, a ridiculous conclusion could be made in that capitalists and tycoons in the West best met that production force criteria.

Arguments about whether owners of private enterprises could join the CPC or be selected as model workers ended after Jiang Zemin's "July 1" speech in 2001. In the speech, he argued that first-class people from the other social strata who satisfied membership requirements should be absorbed into the, clearly affirming that owners of private enterprises were builders of the cause of socialism with Chinese characteristics (Jiang, 2001). This was the first time in the spirit of the CPC central committee that owners of private enterprises were to be integrated as potential national model worker candidates in 2005. The proportion of CPC members among all private enterprise owners rose from 12.9 percent in 1993 to 33.9 percent in 2004 (see Figure 1).

FIGURE 1 [HERE]

## **THE "RED-CAP" PHENOMENON AND PRIVATE PROPERTY PROTECTION**

In the course of reforms implementation in China, discrimination against forms of ownership and other factors meant that the private sector could not operate under the same business and policy conditions as other sectors. By contrast, foreigner-held firms enjoyed preferential clauses while public firms benefited from greater access to bank loans and lower income and regulatory tax rates. Politically, owners of private enterprises were afraid to be viewed as exploiters, or to be classified as "undesirable" elements, and worried about uncertain national policies etc. As a result, many private enterprises chose to put on a "red-cap" by being affiliated to state-owned or collective units, which allowed them to register as publicly-owned or collective firms. In 1989, in order to carry out a research on Chinese township industries commissioned by the World Bank, the Institute of Economics at the Chinese Academy of Social Sciences once investigated township enterprises in Jiangsu, Zhejiang, Guangdong and other provinces where township enterprises had developed rather rapidly. The investigation found that more than a third of these enterprises were in fact private enterprises operating under the name of township enterprise. Separately, the Center for Private Economy Studies at the Chinese Academy of Social Sciences had once collaborated with the Information Center of the National Association of Industry and Commerce to carry out a questionnaire survey. In 1993, surveyed owners of private enterprises thought between 50 percent and 80 percent of collective enterprises were "red-cap" enterprises. And in 1994, in a survey of 360 private enterprises, 50 percent of owners estimated the proportion was around 30-50 percent. In 1994, another survey by the State Administration for Industry and Commerce found that 83 percent of collective enterprises were actually private enterprises. In the same year, statistics from the department in Dongyang of Zhejiang Province indicated that more than 70 percent of collective enterprises were in practice private enterprises (Dai, 2005). This unusual phenomenon led to intense arguments among theorists.

Guo Zhenying et al. (1992) gave the following reasons for private enterprises putting on a "red-cap" to imitate collective ones. Firstly, enterprises could benefit from preferential

clauses such as tax relief. Secondly, private enterprises could expand beyond restrictions imposed by the state on the individual and private economy. Thirdly, having the collective enterprise tag allows private enterprises to seek political protection, enhance their credit access, facilitate transactions, and promote their products. Fourthly, awarding the "red-cap" label to private enterprises let town governments and collective enterprises earn management fees that enable them to afford extra staff and at the same time increase collective output and local political achievements. Fifthly, certain local governments had induced private economy to convert to the collective economy.

Dong Fureng (2001) thought that "red-cap" enterprises were a unique historical phenomenon. After the country's transformation to a market economy, having a "red-cap" did not make sense any more, and was a potential cause of problems and property disputes. Some enlightened local governments took the initiative to resolve these problems, while other governments did not want to eliminate the "red-cap" arrangement voluntarily because of the impact on their benefits, staff arrangement, etc. In fact, at the present time, it is advocated that state-owned enterprises should be detached from the government.

By reviewing the development of the private sector and scholars' arguments, we could see that after private enterprises were permitted to register in 1988, especially after Deng Xiaoping's Southern China tour in 1992, some "red-cap" enterprises attempted to vary their original registration in order to remove their "red-caps." But there were still many debates and disputes. In 1997, the Fifth National Congress of the CPC pointed out that individual and private sectors were important constituents of the socialist market economy. Then the policy environment was relaxed further, which accelerated the speed at which "red-caps" were put away. In 2002, the Sixteenth National Congress of the CPC proposed "two unwaveringly," that is, to unwaveringly reinforce and develop the public economy, and to "unwaveringly" encourage, support and promote the growth of the non-public economy. Amendments to the Constitution approved at the Second Session of the Tenth National People's Congress explicitly provided for State protection of the

legitimate rights and interests of the non-public sectors including the individual and private sectors; citizen's private property; and private property and inheritance rights in accordance with laws. These clauses, centered on private property protection, finally relieved private enterprise owners of their fears of political, economic and legal troubles, removing the initial rationale for the phenomenon of "red-cap."

### **MARKET ACCESS AND FAIR COMPETITION**

Research carried out by the State Development Planning Commission showed that until 2004, there had been restrictions to market access in nearly 30 industries within the non-public sector. In a certain coastal province, state-owned firms could enter more than 80 industries, foreign-held firms more than 60 industries, whereas private capital could only access about 40 industries. The local government had refused more than 56 percent of loan applications by small and medium-sized enterprises, while more than 70 percent of bank loans were made to state-owned enterprises. However, the private sector which had less than 30 percent of funding support accounted for 50 percent of the country's GDP and 70 percent of job opportunities (Ma, 2006, p.309). As the above indicated, it was necessary that problems of market access and fair competition faced by the Chinese non-public sector were urgently resolved. Against this background, on 24 February 2005, the State Council issued several suggestions to encourage, support, and conduct the development of the individual, private and other non-public sectors. These recommendations came under the following seven sections: to relax market access restrictions on the non-public sector; to strengthen the fiscal, tax and financial support to the non-public sector; to improve social services to non-public sector; to protect the legitimate rights and interests of non-public enterprises and employees; to direct the improvement of non-public enterprises; to improve the government's supervision of non-public enterprises; to reinforce the guidance and policy coordination of the non-public sector's development. Under the seven sections, there were thirty-six provisions in total, therefore the document was referred to as "Non-public Sector 36." The publication of this document was accompanied by intense discussions among economists.

Kong Fanhe and Ma Qian (2006) analyzed the "Virgin" phenomenon brought about by the restrictions to market access and other factors. They thought that restrictions to market access were artificial thresholds which significantly raised market entry costs for private enterprises. These restrictions had also artificially created many non-market, unfair obstructions to fair competition between private enterprises and state-owned, foreign-invested enterprises, which had consequently hindered the development of private small and medium-sized firms. In order not to be marginalized, many resourceful private enterprises had converted to foreign-invested enterprises by registering overseas before coming back to compete with state-owned and real foreign-invested enterprises in their home market. This marked the popular "Virgin" phenomenon in recent years.

Li Yining (2007) described the restrictions facing private enterprises in terms of market access and equal competition in recent years as a "glass door." He considered that though the industrial door had opened theoretically after the announcement of "Non-public Sector 36," there still existed a "glass door" holding entrants back. Some monopolistic industries sought to thwart the entry of non-public capital by pleading their peculiarities. Li gave four main reasons for the "glass door" existence. The first was industrial monopoly, whereby firms in some industries had been enjoying market dominance and reaping monopolistic profits for a long period of time and therefore did not want to lose their privileged positions. The second reason was local obstruction, whereby some local governments feared that local enterprises would be affected and hurt local GDP growth, or they worried about the dominance of an external non-public sector which might consequently affect local fiscal revenue and employment. Thirdly, home and private enterprises in some vital industries were small in scale, lacked capital and standard management practices. Their entry and collaboration with large state-owned enterprises, compared with large foreign corporations called "strategic investors," were not seen as helpful. Fourthly, some people still had misgivings about private enterprises entering certain important industries that concerned the life-line of the national economy and had strict conditions about privacy. Meanwhile, private enterprises were lacking in technology and quality assurance competences, resulting in arguments for restricting market access.

Officials of the National Development and Reform Commission had said that promoting non-public sector growth did not mean that private enterprises were to be encouraged, supported, and developed independently, but that they should be taken into consideration within the context of improving the socialist market economic system. For instance, allowing non-public capital to enter monopolistic industries required the improvement of related criteria and conditions on the one hand while a system reform was necessary on the other hand to ensure progress. Furthermore, revising laws and regulatory documents regarding market access of non-public capital and development of the non-public sector's development extends across numerous industries and requires feedback and other complicated procedures. Therefore, promoting the development of the non-public sector is a long-term and tough process.

### **SEVERAL TRENDS IN THE DEVELOPMENT OF THE CHINESE PRIVATE SECTOR**

The first trend is that the private sector's rate of growth will continue to be higher than national GDP growth in China, and its share of GDP will rise further. This can be deduced from data provided by the National Bureau of Statistics. In 2000, the Chinese private sector accounted for about 42.8 percent of GDP, compared with about 12.6% contributed by the foreign-owned sector, including the Hong Kong, Macau, Taiwan-invested sector. The total share of these sectors was nearly 55 percent. In 2005, the proportion of the private sector was 49.7 percent, while the foreign and Hong Kong, Macau, Taiwan-invested sector around 15-16 percent, bringing the total to about 65 percent. In 2000, the proportion of private investment to total fixed asset investment was 41.9 percent, with the figure rising year by year. In 2002, the proportion of private investment surpassed that of state-owned investment for the first time, ahead of all other forms of investment, accounting for 48.7 percent. It then rose to 52.2 percent in 2003, 54.6 percent in 2004, and increased to 60 percent in 2005 (see Figure 2). The proportion of private investment increased by a total of 18.1 percent in the five years.

FIGURE 2 [HERE]

The second trend is expansion of enterprises, as the number of corporations and listed companies increase (see Figure 3). Along with the enlargement of private enterprises' assets, the structure of private enterprises' have also diversified from mainly individual or family-based enterprises to equity-based corporate entities. According to a survey of Chinese private enterprises carried out by the National Association of Industry and Commerce in 2004, in the 10-year period from 1992 to 2003, the proportion of individual-owned enterprises out of the total of private enterprises declined from 63.8 percent to 22.5 percent, while the share of limited liability companies went up from 16.5 percent to 62.9 percent.

FIGURE 3 [HERE]

The third trend is that governance structures are becoming more standardized and sound, with constant improvements in the personnel structure and quality. Among private enterprises, the family-oriented management style has been further integrated into an expert-based management style. The overall governance structure has advanced to take on a more normative, reasonable and modern form. A large number of professional and technical workers have entered private enterprises, enhancing the quality of managers and ordinary employees (see Figure 1).

The fourth trend is optimization of the industrial structure of the private sector, along with its expansion into heavy, chemical industries and infrastructure fields. Their level of technology is increasing, and their product quality is improving. Private enterprises still play a dominant role in the textile trade and other labor-intensive industries. As restrictions to market access are relaxed, their market share in the heavy, chemical and infrastructure industries will increase. Meanwhile, the innovation ability of enterprises is constantly improving, which is expected to result in technologies and products with proprietary intellectual property rights.

The fifth trend is private enterprises taking on more social responsibilities and playing a more active role in contributing to social and public welfare, and helping to build a "harmonious society." Under the direction of the State, awareness is increasing among private enterprises of their social responsibilities, which are being translated into concrete action. All of these trends will drive private enterprises to become an important undertaker of social responsibilities and make them an important driving force in the building of a "harmonious society."

## Notes

1 This paper was presented by the authors at the [International Forum for Contemporary Chinese Studies Inaugural Conference at The University of Nottingham, UK, 19-21 November 2008](#). For more information, please contact the corresponding author: [zhengh1@cass.org.cn](mailto:zhengh1@cass.org.cn).

2 Hongliang Zheng is a professor at the Institute of Economics at the Chinese Academy of Social Sciences and Yang Yang is a doctoral student at the School of Business at Renmin University of China.

3 At that time, some economists found an equation in Karl Marx's *Das Kapital* as an example and concluded that man who employed less than seven laborers and made money for his/her own consumption belonged to the self-employed. Man who hired more than eight employees when residual value and exploitation arose was capitalist. Therewithal, employing seven or eight workers became the criterion to distinguish the self-employed from the private entrepreneur.

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## TABLES AND FIGURES

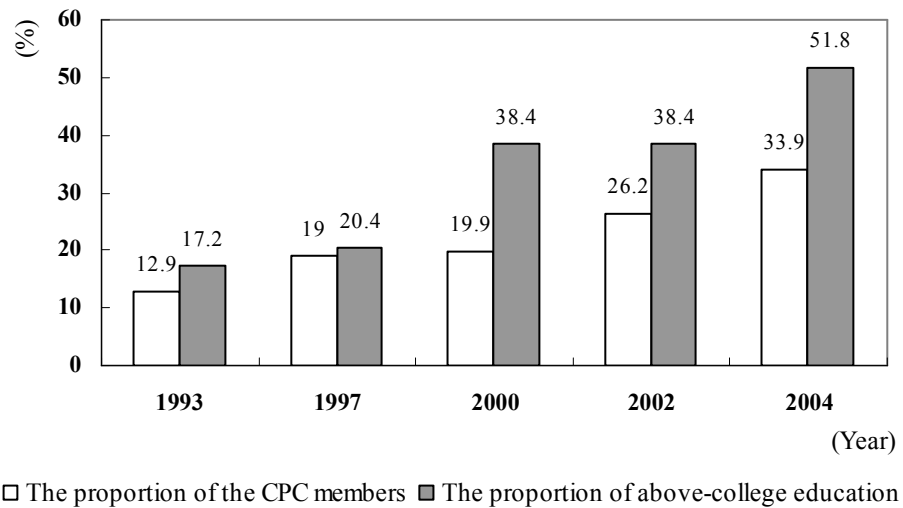
**Table 1 Proportions of private enterprises and their registered total (2000-2005)**

Year	State-owned & collective enterprises (thousand)	Foreign-invested enterprises (thousand)	Private enterprises (thousand)	Total Enterprises (thousand)	Proportion of private enterprises (%)	Proportion of registered capital (%)
2000	5,351	203	1,762	7,316	24.08	10.63
2001	4,833	202	2,029	7,063	28.73	13.05
2002	4,445	208	2,435	7,088	34.35	20.68
2003	4,124	226	3,006	7,356	40.87	18.69
2004	3,798	242	3,651	7,691	47.47	22.56
2005	3,491	260	4,301	8,057	53.38	26.33

**Table 2 Industrial added value of large-scale industries (2005)**

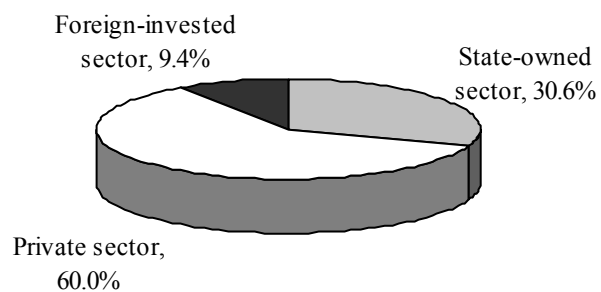
Indicates	Industrial added value in 2005 (billion)	Growth compared with 2004 (%)
Above-scale industries	6,642.5	16.4
State-owned and state-controlled enterprises	2,606.3	10.7
Collective enterprises	258.1	12.4
Joint-stock enterprises	3,217.3	17.8
Foreign and Hong Kong, Macao, Taiwan-invested enterprises	1,897.7	16.6
Private enterprises	1,180.7	25.3

**Figure 1 - Proportions of Chinese private enterprise owners with higher education and of those with CPC membership**

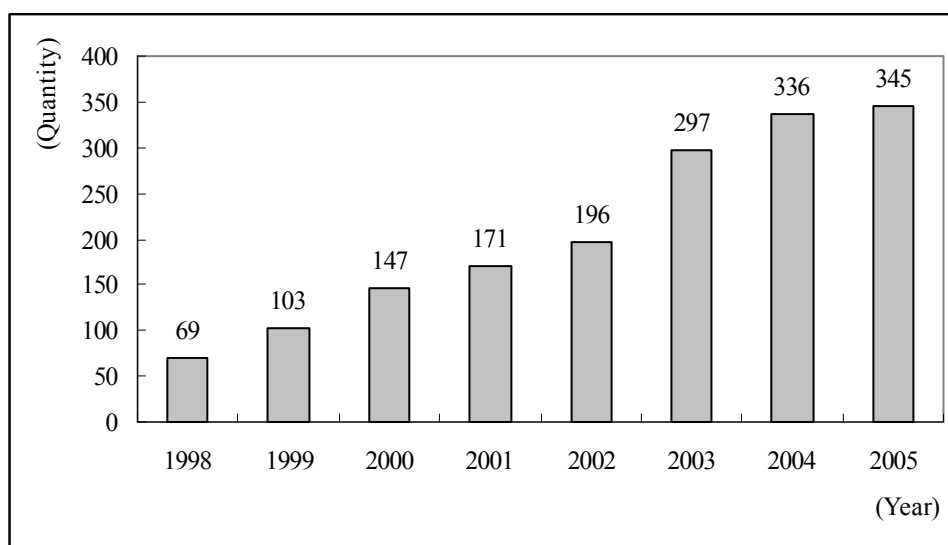


Source: National Association of Industry and Commerce's the sixth private enterprise sampling investigation in 2004.

**Figure 2 - Proportion of various investment modes**



**Figure 3 Increase in listed private enterprises**



Source: Chinese corporate governance report (2005) by Shanghai Stock Exchange and Data from WIND.