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Text 10

Business trends and growth strategies in a transition economy

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Abstract :

**I. The factors behind business reform, creation, and growth**

- the role played by the human factor in the institutionalisation process;
- the easing or elimination of financial regulations in certain regions;
- changing development and growth trends in transition-economy businesses.

**II. State-owned enterprise (SOE) reform and the creation of private businesses**

- The reform process varies according to the business ownership structure. In the case of an SOE, the decision of how and when it should be privatised plays a crucial role in its subsequent development. A private company's development depends on its ability to think outside the box, and cast aside taboos and traditional barriers.
- Attitudes toward reform and costs. The general reform process entails change for businesses as well as individuals. In China's planned economy more personal interests were at stake; start-up costs were higher and as a result the drive to create new businesses was much weaker.
- SOE reform. In a planned economy, SOEs had no managerial power and were simply extensions of government authority. Reforming these companies depends on several factors:
  - (1) when and to what extent the State returns executive control to the company;
  - (2) the market and economic policy know-how of the company's high-level managers, and their ability to adapt to local conditions as a result;
  - (3) the limits set on private property by the State, and the personal interests of managers – for example are help measures well adapted to an open market and to current domestic competition? Other factors affecting business include the presence of monopolies and the cyclical nature of business sectors.
- The primitive accumulation of capital in non-state companies.

In the case of newly-created non-state enterprises or those in a growth period, the economic transition itself represents a process of entrepreneurship and primitive accumulation of capital.

### **III. Common growth models in Chinese businesses after the phases of reform and primitive accumulation of capital**

Business growth typically originates from two sources: external and internal. In the first model, a company seizes on external opportunities to boost growth, while in the second, this growth is driven by a race to improve techniques and quality over the competition.

Three main business growth models exist in legal and institutional terms, represented below by the colours black, grey and white:

- a gradual move from ‘black’ to ‘white’, whereby a company is created in a ‘black’, illegal sector (be it justified or not), and passes from a ‘grey’, semi-legal phase to a ‘white’, legal phase through the primitive accumulation of capital and further economic reform;
- a direct move from ‘grey’ to ‘white’;
- ‘white’ status from the time of creation, followed by efforts to maintain business.

There are also companies who remain ‘black’, who move from ‘grey’ to ‘black’, and from ‘white’ to ‘black’.

### **IV. Conclusion**

Chinese business growth, economic transition and institutional reform are developing together at a rapid pace. Business growth depends on the course of economic reform and local environments. The pace and extent of reform has an important impact on both a company’s strategic choices and its growth, and on regional economic development. In fact, economic transition and Chinese business growth are the same process, one whereby government –at various levels – intervenes less in business activities and focuses its attention on public goods and services, while companies become independent players on the market. Rather than passively adapting to new environments and reform, businesses are taking an active role and setting the pace. Key goals include fair competition, respect for regulations and knowledge building. By evolving from a growth model based on external opportunities to one based on the development of quality and internal know-how, businesses are adopting principles such as equity, respect and skill. The economic environment also evolves as a result of this trend, which typifies business growth in a transition economy.

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