« Key factors affecting business growth in China »

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Abstract:

I. Background theory

Growth in private sector businesses has a considerable positive effect on economic expansion in a transition-economy country. Mc Millan and Woodruff (2002) conclude that China's economic boom is attributable in large part to the impressive growth of private sector businesses, a theory which has been confirmed by other studies of the Chinese economy. What factors determine a private sector company's rate of growth? The results of previous research on the subject point to three possible theories which may answer that question: the "state control" theory, the "investment control" theory and the "regulatory environment control" theory.

II. Case study

Using hard data, this article aims to study the factors – namely the pressure exerted by the State, by investment and by the regulatory environment – affecting the growth rate of private businesses in a transition economy. We took a 2000 cross-industry study of different-sized private-sector businesses operating in four different Chinese provinces and tested the three theories listed above, 'filling in' the gaps which existed in current data.

III. Conclusion

The "state control" and "investment control" theories were excluded by the results of the study, while the "regulatory environment control" theory was confirmed. Research evidence shows that while different state- and investment-based controls do not have any particular effect, a favourable regulatory environment has both a stabilizing and clearly stimulating effect on private-sector business growth.

In terms of public policy, this article suggests that among the many problems which impede private-sector business growth in China, and which must be quickly solved – excessive state control, financing difficulties and a flawed legal system, for example – some are more important than others. In our opinion, it is essential that a favourable legal environment be created to effectively protect the rights of manufacturers and ensure the correct functioning of the market. Laws which fully protect legal private property are necessary to encourage private-sector development and investment. Future research could focus on the effects of state and investment controls on private-sector business growth in such an environment.