

Development Opportunities of China's Private Enterprises in the New Era

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Abstract. Since the reform and opening up in 1978, China's private economy has grown from nothing, from small to large and strong, and now has accounted for more than half of China's economy. In this article, the author predicts a promising future for the private sector based on three judgments. First, Top-level design and relative legislation can fill the confidence; second, New innovation like blockchain facilitates operation costs; thirdly, One Belt and One Road initiative opens a much larger market.

1. Introduction

China's private economy has greatly developed in the past 40 years, and great changes have taken place from theory to practice, and from system to ideas. With the improvement of relevant systems, the emergence of technological innovation and the optimization of business environment, private economy will play an increasingly important role in the development of China's economy in the future and face a better development prospect.

2. Policy Orientation: Top-level Design is the Path Guide for Further Development of Private Economy in the New Era

2.1. The Rapid Development of Private Economy is Inseparable from Relevant Policy Support and Legal Protection

Private enterprises are key economic actors. They account for more than 90 per cent of companies worldwide and for two-thirds of total employment in developing and developed countries alike. In the past 40 years, the Chinese government has issued a large number of policies and legal systems, among which the most important is the State Council's Opinions on Encouraging and Supporting the Development of Non-public Economy, including Article 36 in 2005 and Article 36 in 2010, which are systematic policy documents promoting the development of non-public economy. All that contribute to the rapid development of private economy.

As the main contributor to job creation and technological innovation and an important source of tax revenue, the private economy has played a critical role in developing the socialist market economy, transforming government functions, transferring surplus rural labor and exploring the international market. Some people has summed up its role and contribution with five figures, namely, private enterprises contribute more than 50% of tax revenue, more than 60% of GDP, more than 70% of technological innovation, more than 80% of urban employment and more than 90% of the number of enterprises.

2.2. Two Important Talks can Further Inject Vitality into the Private Sector and Enhance the Confidence of Entrepreneurs.

On March 2016, General Secretary XI Jinping attended the 4th session of the 12th CPPCC national committee and delivered an important speech at the joint meeting of the members of the association for civil construction and industry and commerce, which further clarified the policy orientation of encouraging, supporting and guiding the development of private enterprises, and greatly boosted the confidence of the sector.

On November 1, 2018, President XI Jinping delivered an important speech at a symposium with private entrepreneurs. He confirmed that private economy’s status and functions in the country's economic and social development have not changed, the principle and policies to unswervingly encourage, support and guide the development of the non-public sector have not changed, and the principle and policies to provide a sound environment and more opportunities to the sector have not changed either. "This will be strongly influence the healthy development and transformation and upgrading of private enterprises in our country. So far, there are nearly 25 million private enterprises in China. If viewed from the perspective of increment, private enterprises contribute more than 90% of GDP and more than 100% of new employment, considering the fact that they also fill the employment lost by state-owned enterprises. Among the top 500 Chinese enterprises 2018, there are 237 private enterprises, 11 more than the previous year, accounting for 47.40%.

3. Technical Support: the Popularization of the Internet and the Application of Blockchain Technology Can Reduce the Operating Costs of Private MSMEs and Are Expected to Solve the Financing Difficulties

3.1. Internet Application Reduces the Cost of Private MSMEs

If China's growth in the first 30years from 1978—2008 was mainly driven by factors, then it relied more and more on innovation-driven growth after that. Whether the Chinese economy can overcome the middle-income trap depends on whether it can promote technological progress and achieve industrial upgrading through innovation. After the global financial crisis in 2008, Chinese enterprises have made great progress in these respects. Table 1 shows that China ranked No.1 in terms of patents, trade marks, utility models and industrial designs in 2017, far ahead of some other major economies.

Table 1. Share of Technology Innovation of Major Economies in 2017

Item	Country	Share of world total (%)	Item	Country	Share of world total (%)
Patents	China	43.6	Trade marks	China	46.3
	U.S.	19.2		U.S.	5.0
	Japan	10.1		Japan	4.5
Utility models	China	96.8	Industrial designs	China	50.6
	Germany	0.8		EU	8.9
	Russian federation	0.6		Republic Of Korea	504

Source: World Intellectual Property Indicators 2018.WIPO.

The wide development and use of the Internet has brought a revolutionary impact on the development of enterprises, especially private enterprises. According to the 42nd "China Internet network development statistics report" released on August 20, 2018 by China Internet network information center (CNNIC), China's Internet users have reached 802 million as of June 2018, with a penetration rate of 57.7%. See Table 2 tells us a rapid increase of internet application in China.

More than 800 million Internet users have also provided fertile "soil" for the continuous development of emerging technology fields and steady progress of industrial applications. In the first half of 2018, China's core technologies in the field of quantum information technology, brain-like computing, virtual reality, artificial intelligence, as well as Blockchain and other information fields showed a good momentum of development. This provides a solid foundation for the sustainable and healthy development of China's private enterprises.

Table 2. Internet Users, Penetration Rate and Growth Rate of China 2014-2018^{1h}

Year	Users(100 million)	Penetration rate(%)	Growth rate(%)
2014	6.49	46.7	5.1
2015	6.88	50.1	6.0
2016	7.31	52.8	6.2
2017	7.72	55.5	5.6
2018	8.02	57.7	3.9

Source: Based on the statistics from the State Statistical Bureau website (In Chinese)

3.2. Blockchain Technology is Expected to Solve the Financing Difficulties of Private MSMEs

A blockchain is a time-stamped and distributed digital record of transactions (or ledger) that is secured using various cryptographic techniques Blockchain application may help private enterprises solve the financing problem which is widely and closely concerned by the industry. In the present supply chain financial system, banks only need to focus on the core enterprises in the industrial chain, manage the upstream and downstream trade flow and capital flow, grasp the information of private MSMEs as a whole and dynamically, and then transfer the uncontrollable risks of a single enterprise to the entire supply chain, significantly reducing the possibility of default. However, the financing needs of private MSMEs far away from the supply chain are still unable to be met due to their small scales, limited management level and low credit ratings in terms of scarce collateral resources .It is a subversion of traditional supply chain finance to penetrates the traditional bottom layer by the blockchain technology, which is hopeful to solve the above problems.

Recent studies demonstrate that Blockchain can give rise to substantial benefits for all parties involved in supply chain financing transaction, especially private MSMEs, by expediting the processes and lowering the overall costs of financing programs. Blockchain can be helpful to private MSMEs access to trade finance at three levels.

Firstly, because of the immutable nature of Blockchain, it is easier to track transactions and assess the creditworthiness of companies and individuals, which is a key hurdle for private MSMEs and small producers in trade financing and credit creation.

Secondly, Blockchain can facilitate procedures to address the financing gap of private MSMEs. The We. trade platform can be accessed from any connected device, aiming to streamline trade finance processes for participating companies, in particular private MSMEs, including managing, tracking and securing domestic and international trade transactions.

Thirdly, Blockchain makes it possible for companies and individuals around the globe to make transactions on a direct, peer-to-peer basis, opening up the possibility for small firms and small producers to participate in international trade without the need to secure traditional trade financing. One such example is the FastTrackTrade platform, which leverages the technology to build a digital trade network of private MSMEs to facilitate commercial transactions between buyers and sellers and give participating companies direct access to the trade finance services of various fintech companies, thereby bypassing banks.

Blockchain's unique technical advantages, such as the decentralization, transparency, tamper-resistant, traceable, together with the introduction of intelligent contracts, BaaS intermediary technology application, can effectively solve the private MSMEs's financing problem currently faced and the supply chain finance enabled by Blockchain will have a broad market in financing for private MSMEs.

4. Environment-Friendly: One Belt and One Road Initiative Provides a Broad International Market for Private Enterprises

4.1. Going Out Strategy has Gained International Market Share for Private Enterprises

Since the reform and opening up, private enterprises have been an important force in China's opening up and cooperation with the outside world, and they are at the forefront of China's participation in the international economic division of labor. After China's accession to WTO, our private enterprises "go

out" actively to build a new international division of labor network. With the rapid development of the new technology revolution in recent years and the continuous enhancement of the core competitiveness of China's private enterprises in the fields of technology and brand, private enterprises are going out at a larger pace than ever.

According to statistics from the Ministry of Commerce, the overseas direct investment of Chinese private enterprises is developing rapidly on the whole, and private enterprises have become the protagonist of "go out" From 2006 to 2014, the proportion of FDI stock by China's state-owned enterprises decreased year by year, from 81 percent in 2006 to 53.6 percent in 2014, while the proportion of investment stock by private enterprises increased year by year, from 19% in 2006 to 46.4 percent in 2014, 22.8% up. Fig.1 based on another report shows from 2005 to 2016, the number of overseas direct investment projects of Chinese private enterprises increased by 30 times, and the investment amount increased by 532 times.

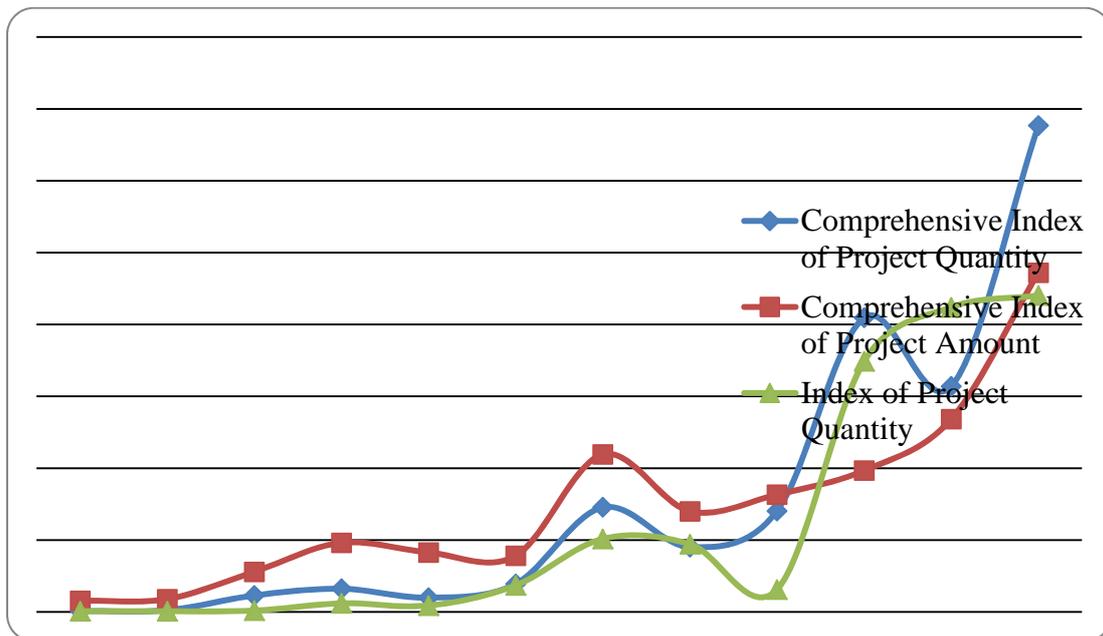


Figure 1. Quantity and Amount of Overseas Direct Investment Projects by Chinese Private Enterprises from 2005-2016

Sources: Based on Annual report of overseas direct investment index of Chinese private enterprises 2017, by China Business Times, Dec. 19, 2017.

Another report from PWC(Price water house coopers) shows the transaction amount and number of M&A(Mergers & acquisition) transactions in China reached a new high in 2016, while private companies dominated the overseas M&A market. The number of transactions tripled from the previous year 2015, and for the first time exceeded the total value of transactions by state-owned enterprises.

4.2. "One Belt And One Road" Initiative Has Gained Popularity for Private MSMEs

"One Belt And One Road" initiative is the general strategic thought of China's opening up, a brand new strategic deployment of China's going global in the new stage, and a good opportunity for Chinese enterprises, especially private enterprises, to go global. More than half of the top 500 private enterprises 2017 have participated in the construction of "One Belt And One Road".

In terms of trade cooperation, the foreign trade volume of China's private enterprises has accounted for 38.5% of China's foreign trade volume in 2017, and has become a major force for China and countries along the "One Belt And One Road" to jointly improve the quality of bilateral trade and promote balanced development of import and export. According to data released by the state information center, in 2017, the total import and export volume of private enterprises and "One Belt

And One Road" related countries reached more than 600 billion us dollars, accounting for 43% of the total trade volume of "One Belt And One Road" related countries.

In terms of investment cooperation, private enterprises are an important force in promoting the construction of a new type of international production network in China. They have built a large number of overseas production bases in the fields of textile, light industry, automobile and household appliances, effectively promoting their partners to integrate into the international division of labor system, and accelerating the process of economic development and industrialization. According to a research report, "The Advance of Fresh Forces: the Status and Role of Chinese Private Enterprises in the Construction of" One Belt And One Road ", the proportion of Chinese private enterprises had reached 94.2% of the whole investing abroad by the end of 2015. In coastal areas with relatively developed private economy, private enterprises have become an important force in "going out".

At the present stage, the construction of "One Belt And One Road" has entered the stage of "meticulous brushwork" from "freehand brushwork", the importance of high-quality construction of "One Belt And One Road" is increasingly prominent, and the benefits it brings about will be enormous.

First, the "One Belt And One Road "initiative promotes economic transformation and upgrading, and improves the quality of domestic goods and service system by opening up and participating in international division of labor and cooperation. Secondly, it opens up more investment opportunities for the industry. "One Belt And One Road "initiative brings multi-industry chain and multi-industry investment opportunities to China's capital market through gradual large-scale infrastructure construction, resource and energy development and utilization, all-round trade and service exchanges and other cooperation methods. Due to their own advantages, private enterprises are playing an increasingly important role in the initiative.

5. References

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