

Study on the Situation and Improvement of Chinese Enterprises' Competitiveness

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Abstract—Use relevant indication system; compare the Competitiveness of Chinese enterprises and the World's Top500 to find the gap between Chinese enterprises and foreign enterprises. Based on these comparisons, some suggestions on how to improve the Competitiveness of Chinese enterprises are given.

Keywords—Competitiveness, internalization, the World's Top500, reform

I. INTRODUCTION

Competitiveness has been a hot research issue taken by all countries, especially developed countries. The earliest Competitiveness research can be traced back to 1970's. In 1978, U.S. Office of Technology Assessment initiated the research into the Competitiveness of the United States. In 1983, Japan began the comparative research of Competitiveness between the U.S. and Japan. Afterwards, some European countries such as British, Germany etc. also started their monographic research. Apart from this, academic circles also began to conduct Competitiveness research on different levels, of which the influential research institutes includes World Economic Forum, International Institute for Management Development, Lausanne, Switzerland, Economics and Social Research Council of Britain. These institutes produced ranking index of national Competitiveness, multi-dimension International Competitiveness, World Competitiveness Yearbook, which provides valuable references and evaluation index for comparative research across nations and transnational investment, which also provides theory basis for trade policy, investment policy, industry policy as well as global and area positioning for some countries. These outcomes not only deepen the research in Competitiveness but also highlight the focuses of government, industry and academic circles.

China did not conduct Competitiveness research until 1989. China Economic Reform Commission (CERC) first conducted international Competitiveness research through cooperating with World Economic Forum and International Institute for Management Development, Lausanne, Switzerland. Since then, the Competitiveness research in China began to cause widespread attention and developed very fast soon. In 1996, China Society of Economic Reform

of CERC, Shenzhen Development Institute and Renmin University of China jointly set up a group to conduct research into Competitiveness of China and produced Report on the Development of China's International Competitiveness.

II. GENERAL SITUATION OF COMPETITIVENESS OF CHINA.

With the deepening and development of reform and opening policy, Chinese enterprises changed their development pattern from extensive economy to intensive economy under the condition of market economy, and their management level and market vitality, therefore, improved a lot. Nevertheless, the overall Competitiveness of Chinese enterprises is far from perfect. Many enterprises are forced to cope with increasingly fierce market competition and put too much emphasis on short-term economic benefits, ignoring the continuous improvement of Competitiveness. It is quite common for some listed companies in China that their performance is excellent for the first year, medium for the second year, poor for the third year and ST for the fourth year. Actually they can not be called genuine market enterprises because of the long-term influence of state ownership planned economy; they have no independence and no driving force to grow as market entity.

The general situation of Chinese enterprises' Competitiveness can be seen from the relevant index of the World's Top500 enterprises. Compare the World's Top500 enterprises from 1995 to 2009, we can see that the top 500 enterprises were mainly from Europe and the United States, especially the United States got a far lead in number over the whole period: in 1995, 152 American enterprises ranked top500, in 2002, the number reached a peak at 199, the year of 2009 reached 140, the average number of U.S was 171, accounting for 34% of the total. European enterprises showed a stead development state, in 2009, the number of Top500 enterprises in France, Germany and Britain reached 40, 39 and 26 respectively. Japan reached a peak at 148 in 1995 though it decreased to 68 in 2009. Compared to these countries, China, together with Hongkong China and Taiwang China, totaled up only to 43, which was far less than that of developed countries. (Details refer to table 1)

Table1: Comparison of Top500 Enterprises in Number between China and Developed Countries From 1995-2009

	1995	1997	1999	2001	2002	2003	2004	2005	2006	2007	2008	2009
U.S.	152	162	184	186	199	192	189	175	170	162	153	140
E.U.	158	154	157	143	142	147	149	157	158	157	159	152
U.K.	35	34	40	35	35	34	35	35	38	33	34	26
Japan	148	126	101	105	87	88	82	81	70	67	64	68
China	2	3	6	11	11	11	14	15	19	22	26	34
H.K.	1	2	1	1	0	0	1	1	1	2	3	3
Taiwang	2	1	1	0	2	1	1	2	3	6	6	6

From the perspective of internationalization, the level of Chinese enterprises is also much lower than that of world overall level. In China, only trade (0.5394) and computer (0.4352) reached the world level. Except for these two, other industries such as automobile, metal, Electronic &

Electric etc. were far lower than world average. Take auto-mobile for an example; the ratio of oversea sales and total sales is 0.171, whereas the world average is 0.5063, U.S. 0.5842, Germany 0.6844. (details refer to table 2)

Table2: Comparison of The World's Top500 Enterprises' Internationalization between China and Developed Countries

Telecom 0.334	U.K. Germany France	0.543 0.532 0.419	Pharmacy 0.597	U.K. Switzerland France U.S.	0.815 0.777 0.561 0.488
Petrol Refining 0.478	Switzerland U.K. France Russia Holland U.S. Japan China	0.837 0.774 0.758 0.655 0.571 0.331 0.065 0.052	Chemistry 0.747	Holland France Germany U.S.	0.944 0.798 0.686 0.681
Food, Beverage, Tobacco 0.597	U.K. U.S. France Japan	0.608 0.582 0.508 0.282	Automobile 0.506	Germany U.S. Japan France China	0.684 0.584 0.441 0.253 0.171
Engineering and Construction 0.3371	Germany U.S.	0.882 0.49	Electronic Equipment	Holland Germany	0.962 0.727

	France China	0.287 0.102	0.445	France U.S. Japan	0.558 0.547 0.394
Computer and Office Equipment 0.395	U.S. China Japan	0.534 0.435 0.146			
			Trade 0.445	China Japan	0.542 0.353

Note: the level of internationalization is measured by the ration of oversea sale and total sale. The figure under industry is the world average level. Source: The World's Top500 Financial Statements Statistics, OSIRIS

From the perspective of enterprise scale, the scale and benefit of Chinese enterprises though grew year by year from 1996 to 2009, and annual revenue increased to \$43.161 billion from \$ 12.965, average profit increase to \$2.256 in 2009 from \$0.505 in 1996. Since 2001, Chinese enterprises' profitability is relatively good and the overall

profit rate was higher than that of world average level, however, from 1996 to 2005, the average asset of the World's Top500 of China is far higher than world level, but the average turnover and average profit was less than world average. (Details refer to table 3)

Table 3 Comparison of scale and profit between Chinese enterprise and Top500 From 1996 to 2009

	Average Turnover (billion dollars)		Average Profit (billion dollars)		Average Asset (billion dollars)		Profit Rate%		ROA%	
	China	World	China	World	China	World	China	World	China	World
1996	12965	22549	505	588	74928	64901	3.9	3.3	3.0	2.7
1997	15751	22870	320	1032	56435	67500	2.1	4.6	1.8	3.7
1998	14042	25262	442	907	61002	68646	3.3	4.1	2.0	3.2
1999	16603	22927	356	885	105175	77959	2.7	3.8	1.5	3.0
2000	19042	25392	383	1163	143780	87648	2.2	4.8	0.9	3.0
2001	22683	28132	1132	1342	155204	91613	4.9	4.5	2.5	3.0
2002	21756	28578	975	623	154465	96954	4.1	1.9	1.7	1.5
2003	34095	27854	1147	282	169283	109518	4.5	0.7	2.1	3.5
2004	23839	29967	1004	1462	157132	119735	4.5	4.6	2.2	6.0
2005	27550	33620	1785	1931	158708	135742	7.0	5.5	3.0	3.5
2006	29572	37859	1947	2430	151623	152699	5.9	6.4	2.4	4.6
2007	32378	41821	2075	3058	141686	171363	6.1	7.5	3.3	4.8
2008	37594	47287	2789	3186	152831	210079	7.1	7.1	4.4	4.5
2009	43161	50351	2256	1643			4.8	3.1		

III. REASONS WHY THE COMPETITIVENESS OF CHINESE ENTERPRISES IS LOW

A. Overall market environment is not as good as it should be,

which limits the development of enterprises from the aspects of capital, market, technology etc. This is the most fundamental reason why the Competitiveness of Chinese enterprises is low. Compared with other developed countries, the overall level of economy is still very low. Though the economic aggregate of China ranks second already, the per capita income is relatively low, less than 1,100 dollars currently. Under this condition, capital, market and technology etc. limit the growth of enterprises.

B. The property right reform of China is still in trial stage, no stable, clear and effective property right mechanism, which constrains the internal driving force. Property right is the foundation of economic activity. The existing incomplete property right mechanism of China is the system obstacle which constrains enterprises from developing. It can be seen from the following points: firstly, private economy has relatively sound internal property right mechanism, but the external operational environment is restricted and capital accumulation is very slow, scale and strength can not be improved fast. And also worries about policy stability hinder the long-term development of enterprises. Therefore, private economy is not able to take the responsibility for catching up with the World's Top500 until their external environment changes. Secondly, State-owned enterprises are the major part of Chinese industry and their development status is highly correlated with the Competitiveness of Chinese enterprises. However, some of state-owned enterprises have not developed so well because of reforming lag. Though China has conducted reforms in state-owned enterprises from expansion of power and transfer of benefit to leasing system, from contract system to share-holding system etc. The effectiveness of these enterprise organizational patterns is far from perfect and many enterprises were in explicit loss or hidden loss, state-owned assets were being seriously eroded. In a word, due to property right reform's lag, the ambiguity of property right, difficulty in financing, rigid mechanism and low efficiency, it will take a long time for state-owned enterprises of China to catch up with the world's Top 500 enterprises. Thirdly, Joint stock limited corporation system is a good way to financing, risk spreading, stabilizing business and improving efficiency, and it is most appropriate pattern for a large enterprise to develop. However, this enterprise pattern is not mature yet in China. Of the Chinese Top 500, the number of joint stock limited corporation is only 56, with a percentage of 11.2%. This is also one important reason why the Competitiveness of Chinese enterprises is so low.

C. Block segmentation system constrains the cooperation between enterprises.

George Joseph Stigler, American scholar, Nobel Prize winner in economics, pointed out: any large enterprise in developed countries develop through merging and combining, which shows the great significance of merging and combining in large enterprise's development. In the process of enterprise explosion, especially those large enterprises, it is very slow to develop only through self accumulation and it is necessary to make use of such expansion pattern as merging and combining. In recent years, through merging and combining some giant enterprise came into being. For example, Daimler Benz Corp and Chrysler Corporation combined into a giant enterprise: Daimler Chrysler, BP and Amoco Corporation merged into one huge enterprise, Boeing and McDonnell-Douglas Corporation combined into present Boeing Corporation. Bank of Tokyo and Bank of Mitsubishi combined into a giant: Bank of Tokyo- Mitsubishi. Through the combination and merging, these enterprises not only expanded business scale but restructured and optimized resources and improve efficiency and Competitiveness. But, in China, enterprises belong to different segmentation under the influence of traditional planned economic system. On the one hand, protectionism of local government and departments break up the resources and market, which leads to small scale, homogeneous structure and can not foster large enterprise with Competitiveness; on the other hand, due to the obstacles from local government and departments, enterprises find it difficult to expand scale and optimize resources through merging and combining with enterprises of other areas. Statistics show that industries of different areas are seriously homogeneous in China. In 1995, there were 29 different areas producing plastics, chemical fertilizers, steel, tobacco etc. 28 areas producing synthetic materials, 17 areas producing TV, 23 areas producing bicycles and washing machines, 19 areas producing refrigerators, 22 areas taking automobiles as pillar industry, 24 areas taking electronics as pillar industry, 14 areas taking metallurgy as pillar industry. Statistics from National Development and Reform Commission shows that the coefficient of industrial structure between Middle Part of China and Eastern Part of China is 93.5%. The coefficient of western part of China and Middle Part of China is 97.9%.

D. The Long-term Protectionism Policy makes domestic enterprises idle and lack motivation to compete with world-class enterprises.

Since the founding of P.R.C, China adopted trade protection policy to avoid the severe impact on domestic enterprise from overseas. Though the policy has changed since reform and opening especially after 1992, however, some areas still adopts protectionism. It can be clearly seen from the following two aspects: first is the high tariff. At present, average level of tariff of China amounts up to 15%, of which, agricultural product is 21.2%, and industrial product is 19.2. Surprisingly, automobile is up to 80%-100%. Second is a large number of different non-tariff

barriers. One-third of imported goods have non-tariff barriers. Of which, the most widely covered is import license, more than 18%, the second is national monopolistic trade, up to 11%, and state monopoly and import tender is up to 7% respectively. The protectionism policy is originally designed to cultivate and improve the Competitiveness of domestic enterprises so that they can compete with foreign enterprises when the trade protection is removed. But, it does not turn out to be as good as expected, instead, trade protection hinders the development of domestic enterprises instead promotes their development.

IV. SUGGESTIONS FOR CHINESE ENTERPRISES TO IMPROVE COMPETITIVENESS

A. *Establish reasonable enterprises' property right system as soon as possible.*

Since right of property is the key factor that hinders the development of Top500 enterprises of China, then it is necessary to take fundamental reform in property system. Firstly, firmly adhere to the basic principle of socialism market--Taking the socialist ownership as the mainstay with other economic patterns, insisting on faire competition, common development; radically remove the development limitations of non-state-owned enterprises, especially the limitation of private capital, promoting their growth. Secondly, Speed up the reform of state-owned enterprises, break up the national ownership forbidden area and reorganize state-owned enterprises strategically and create overall development environment for domestic enterprises. Thirdly, put emphasis on the reform of collective economy property right and solve the problem of property right existing in collective economy. The first step is to verify the identification of existing collective enterprises and figure out the mess problem of collective property right, second step is to combine the reform of shareholding system and reorganize the structure of collective enterprises and clearly define internal boundary of property right. Then for those developing and promising collective enterprises, they should be transformed into shareholding enterprises with collective economy as the controlling shareholder, through capital operation expand enterprise scale rapidly, improve economic strength and Competitiveness. Fourthly, speed up the shareholding reform of large enterprises. The main form of these types of enterprises should be limited companies. To further break up the boundary of ownership, government must turn their support from central and state-owned enterprises to small and medium size enterprises, especially those innovative enterprises; further support all kinds of enterprises to transform into shareholding companies and listed companies, including collective enterprises, private enterprises and foreign funded enterprises. Meanwhile, transform part of exclusive state-funded corporations into shareholding limited companies connecting to the reduction of national share.

B. *Conduct merging and combing across areas and departments.*

Currently, domestic segmentation of resources and markets has seriously hindered the expansion and development of competitive enterprises of China. It is necessary to remove local protections, break up the limitations of areas and departments. Through merging and combing, realize the expansion and efficiency of existing enterprises and improve Competitiveness. During the process of merging and combing, it is necessary to cancel administration ranks and radically reorganize and reallocate human resources, capital and material so as to form real strength.

C. *Establish competitive hi-tech enterprise clustering and develop cooperation between them.*

Long-term research on national industry zone shows that enterprises, as interactive entities, can make full use of all resources available within the zone to compete. Enterprise clustering enables enterprises to innovate with more efficiency. They can reduce cost of innovation and increase revenue of innovation, they can shorten period of innovation and lower the risk of innovation. Since 1990s, China has come up with the development strategy that foster and develop high-tech clustering zones. China can take the experience of the high-tech zones around the world for reference meanwhile consider the actual situation of China, fully make use of the market mechanism under the guidance of the government and adopt the development pattern with equal emphasis on both government's guidance and mechanism.

D. *Integrating Into Economic Globalization.*

Since China's entry into WTO, it means that the economy of China will completely integrate into the tide of globalization. Therefore, large state-owned enterprises of China must establish the idea of globalization and join international competition with high standards. On the one hand, they need to participate in international competition and improve Competitiveness so as to acquire their existence and development; on the other hand, domestic enterprises need to make full use of the advantages of economic globalization and take the great opportunity of production factor flow and industrial transfer so as to develop ourselves with foreign resources.

Nevertheless, it should be always kept in mind that it is impossible for the enterprises of China to catch up with the World's Top500 within a short time. China should take firm and steady steps toward internalization, adhering to own characteristics. For example, HUAWEI adopted the internalization strategy of "step by step. They got "the first gold "from the market of Hongkong with which they are comparatively familiar . In 1996, HUAWEI cooperated with Hutchison Telecom, Hongkong, and then they began to develop market in some developing countries. In 1997, HUAWEI established joint venture companies in Russian and Brazil respectively, they developed markets through localization. From 2000, they further developed markets in the areas of Southeast, Middle East and Africa. Until 2001, HUAWEI gradually began to enter the markets of

developed countries. Initially they also built cooperation with local agents and then entered into such developed countries as Germany, France, and U.K. etc.

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