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## Creating New Jobs in China through Entrepreneurship; SME Policy and Management Culture

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### Abstract

SMEs and entrepreneurs are now essential to social stability and growth in China. This somewhat remarkable change has occurred since the mid 1990s. State owned enterprises (SOEs) are net destroyers of jobs, as are large firms in almost all economies. About 12 to 13 million people enter the workforce annually, but only about 8 million jobs can be created by the existing industrial structure *even if* China can maintain GDP growth in excess of the minimum target of 7.5% pa. The problem has been officially recognised, along with the potential for social disruption, in the White Paper on Labour and Social Security, and was acknowledged as such by the Vice Minister for Labour, Wang Dongjin, on April 29 2002 (China Daily). There is an urgent imperative to create about 4 to 5 million *net* new jobs a year. SMEs are good at creating jobs, and are responsible for about 70% of net job creation in most developed economies. The problem in China is that there are only about 1.5 million private SMEs, for an economy of 1.2 billion people. The problem is compounded by China's accession to WTO and its commitments to open up its economy to international competition in the next seven to ten years. Estimates suggest that China needs to create about 50 million more SMEs if it is to have an industrial structure able to generate the necessary jobs, competitiveness, and social stability (Hall (2002)). This poses a huge challenge for SME policy.

China has three basic scenarios, or options, in the development of its SME policy post WTO accession:

1. A regressive policy approach.

This would involve turning back the clock, to greater State control over large SOEs or *qiye jituan*, so that they could provide employment and social stability.

2. A continuation of the existing policy approach.

The existing policy approach seeks to adjust the industrial structure by a combined approach of actively reducing inefficiencies in SOEs, and encouraging the evolutionary growth of an SME sector.

3. An accelerated and concentrated approach.

The third approach is a concentrated effort by China, possibly with international assistance, to dramatically restructure the enterprise base by ensuring that there are some 2 million to 5 million new SMEs start-ups each year for the next ten years or more.



Only the third option is really sufficient to generate the 5 million or so net new jobs that are required. This suggests that SME and entrepreneurship policy needs to focus on two key areas:

- a) Management culture: Chinese management and administrative culture tends to vertical collectivism (ie a culture based on group decisions, mostly at a party level, with these imposed through a vertical hierarchy). An economy based more on SMEs will require a cultural shift toward more horizontal and individualistic management, especially amongst SOEs and the bureaucracy.
  
- b) Entrepreneurial environment and infrastructure: The government alone cannot provide the infrastructure for finance, advice, training, telecommunications etc that is required. Cooperation with the private sector will be integral to the business environment conducive to creating the entrepreneurs, the SMEs and jobs needed.