

The Key External Factors for the Success of Small and Medium-sized Enterprises in China : An Overview

Liu, Yu
Graduate School of Economics, Kyushu University

<https://doi.org/10.15017/25131>

出版情報 : 経済論究. 143, pp.139-152, 2012-07. 九州大学大学院経済学会
バージョン :
権利関係 :

The Key External Factors for the Success of Small and Medium-sized Enterprises in China: An Overview

Yu Liu[†]

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1 . Introduction

With the development of information technology and greater integration of global trade, small and medium-sized enterprises (SMEs) have played a very important role in economic growth in many economies of East Asia. Chinese SMEs have also contributed dramatically to the economic development, since the economic transition from centrally planned economy to socialist market economy started in 1978. During the last three decades, Chinese SMEs have not only developed to be the main part of economic system in China, but also contributed significantly to economic indexes like GDP, tax revenue, employment, import, and export. However, the researches on Chinese SMEs are arguably inadequate in academic field, in spite of the pivotal impact on economic growth from SMEs in China.

Thus, followings are the two main questions which will be discussed in this paper:

- ①. How do SMEs contribute to Chinese economy?
- ②. What are the external factors behind the success of SMEs in China?

This paper will statistically analyze the contributions of SMEs to Chinese economy first. And then from the perspective of external economic environment, the true main factors behind the development and contribution of SMEs will be deeply discussed. In addition, prospects about the future research will also be proposed in this paper.

2 . Contributions of SMEs to Chinese economy

China has experienced a rapid economic growth during the last decade. According to Table

[†] Graduate School of Economics, Kyushu University, Japan.

The author wishes to thank Prof. Endo for helpful comments. The views and any remaining errors in this paper are those of the author.

1, the value of GDP reached up to 4,984,731 million dollars in 2009 which makes China to be one of the top five economies in the world. GDP average annual growth has got to 10.90 per cent during the period of 2000s. The remarkable growth of Chinese economy in the last ten years is important to the stability of the region and the world, even to the development of SMEs. With the fast economic increase, the number of SMEs in China has increased swiftly. In 2008, the number of Chinese SMEs rose up to 42.8 million which accounts for 99.25 per cent of all enterprises. Till 2009, SMEs in China had employed around 78 per cent of workforce. SME exports amounted to 68.65 per cent of total exports in China in 2006.

Table 1 Profile of Chinese Economy and SMEs

Indicators	Value	Year
GDP \$million	4,984,731	2009
GDP average annual % growth	10.90	2000-2009
Number of SMEs million	42.80	2008
SMEs as % of all enterprises	99.25	2008
% workforce employed by SMEs	78.00	2009
% of SME exports in total exports*	68.65	2006

Notes:

*Data are available from the website of National Development and Reform Commission

<<http://www.sdpc.gov.cn/> in 2011-11-8.

Sources:

World Bank, 2011. *World Development Report: Conflict, Security, and Development*. Washington DC: The World Bank. Table 4, P350; Table 5, P352.

Liu Xiangfeng, 2007. SME development in China: A policy perspective on SME industrial clustering. In Hank Lim (Eds.), *ASEAN SMEs and Globalization: ERIA Research Project Report*, 5:37-68.

National Bureau of Statistics (NBS) of China, 2010. *China Statistical Yearbook*. Beijing: State Statistics Bureau Press.

Figures in Table 1 provide us a snapshot of economic condition and SMEs in China. Well then, what contributions do SMEs make to Chinese economy, since SMEs are widely considered to be an important source of sustainable economic growth (Harvie, Charles, & Boon-Chye Lee, 2002: 14)? In detail, SMEs are acknowledged to be strategically important: for industry restructuring; for employment growth; as a source of competition for large companies; for improving skills, flexibility and innovation; for their potential to contribute to the promotion of regional trade, investment and technology transfer; and for the attainment of social objectives such as that of poverty alleviation and regional development (Harvie, Charles, & Boon-Chye Lee, 2002: 12).

However, demonstrating the contribution of SMEs to Chinese economy statistically is difficult to arrive at with any precision. For example, the figures for the number of SMEs are barely accurate, because many small SMEs are usually non-employing part-time businesses and are not even counted by some statistical agencies (Hall, 2002b: 24). Furthermore, when it comes to

employment, output, sales or value added, exports, and Foreign Direct Investment (FDI), statistics which break these indicators down by size of firm are difficult to get in China. Though allowing for this, figures about the contributions of SMEs to Chinese economy are shown in Table 2.

China is quite a large country with 1.34 billion populations and over 78.4 million economically active populations (NBS, 2011:chapter 3-1 & chapter 4-1). Employment has become a core problem which directly relate to the social stability and economic growth in China. The emergence, development, and flourish of SMEs make a truly spectacular contribution to Chinese economy, in terms of employment creation. According to the first national economic census completed in 2006, around 60 million people have been employed in SMEs which accounts for about 78 per cent of workforce.

Table 2 Contributions of SMEs to Chinese Economy in 2006

Table 2 Contributions of SMEs to Chinese Economy in 2000							
Employment			Outputs		Exports		
	% employed	Total employed people	Output as % of GDP	Business revenue of whole year (thousand RMB)	Total assets (thousand RMB)	Total exports (\$ billion)	Share of SMEs in total exports
Value	78	58,947,778	60	6,535,425,319	7,229,524,125	518	68.65

Sources:

China, 2006. The First National Economic Census.

Liu Xiangfeng, 2007. SME development in China: A policy perspective on SME industrial clustering. In Hank Lim (Eds.), *ASEAN SMEs and Globalization: ERIA Research Project Report*, 5:37-68.

As to the contributions of SMEs to outputs, the statistical figures are hard to get. From Table 2, about 60 per cent of GDP attributed to the outputs of SMEs in 2006. Business revenue of the whole year from SMEs amounted to 6,535 billion RMB. SMEs' total assets reached up to over 7,229 billion RMB.

Export is an important index to reveal the international contribution of SMEs to Chinese economy. WTO statistics suggest that by 2006 China had already overtaken the United States as the second largest exporter in the world in terms of export volume, and will overtake Germany in the next year or so to be the leading exporting country in the world (WTO, 2007; Hall, 2007: 29). Most of these exports come from SMEs (Hall, 2007: 29). As can be seen from Table 2, SMEs contributed over 68 per cent of exports in 2006, comparing with 62 per cent of exports in 2002 from which SME exports were separately identified (Hall, 2007: 30). To put this in context, Chinese SME exports were \$518 billion in 2005 and about one quarter of the total GDP of France (Hall, 2007: 30). This is a much higher proportion than in any other economies in the OECD or APEC (Hall, 2007: 30). China's export growth is about to double its GDP growth and Chinese

SME exporters are major contributors to Chinese economic growth (Hall, 2007: 29).

In addition, innovation and technological upgrading are key elements for productivity improvement. SMEs implement innovation and technological upgrading in four ways to improve productivity, eventually economic growth. They are internal R&D, imitation, licensing of know-how, and university- (and related institution)-led R&D (Liu, 2007: 48). According to Liu (2007: 48), the ratio of internal R&D (Research and Development) to technological innovations is 54 per cent; those of other three are 20 per cent, 19.9 per cent and 5.3 per cent, respectively. The highest contribution to income generation is imitation technology, followed by internal R&D, licensing of know-how, and external R&D. Though imitation technology is considered to be the reason for restricting the technological innovation (Liang, 2007), the contribution of SMEs to the innovation and technological upgrading is spectacular.

3 . External factors

3.1 Government policy

China is a policy-oriented society. Government, as the policy maker, is powerful for the trend and direction of economic and social development, for China had long experienced the centrally planned economy. Since the economic reforms of early 1980s, every item of important policies proclaimed and implemented by government has impacted intensively on the economic transitions and institutional changes in China, though displaying a mix of progress and regression. All the significant events around policy pronouncement and implementation in the last three decades are as detailed in Table 3. All these government policies undoubtedly provide more opportunities and space for the expanding of Chinese SMEs.

As can be seen from Table 3, the economic transition and the development of Chinese SMEs can be approximately divided into three stages. The first stage was from 1978 to the late 1980s. During this period of time, a series of laws, policies, and events had provided a broad seedbed for the development of Chinese SMEs. The most representative landmarks are that the protection of the rights of self-employed individuals proposed in constitutional amendment in 1982, and the self-employed individuals and private enterprises were deemed as “useful supplements” to socialist public ownership when the constitution was mended in 1988. These events greatly stimulated the development of private enterprises in urban area and Township & Village Enterprises (TVEs) in rural China. Both of the two kinds of businesses account for the main part of SMEs during the early time of economic reform.

As to private sectors, they emerged and slowly developed in the form of Individual enterprises with entrepreneurs of low level of leadership and knowledge, though the state sectors were the main part of economic system at that time. The basic reason why the private enterprises were

Table 3 Key Events or Policies during the Last Three Decades

Date	Events or policies
1979	Joint Ventures Law; Price Liberalization of Farm Products.
1980	Fiscal Autonomy to Local Government; Creation of Special Economic Zones; Private Income Tax.
1981	Individual Enterprises Encouraged in Urban Centers.
1982	Constitutional amendments stipulated that the rights of self-employed individuals, which were deemed as necessary parts of the socialist economy, should be protected; Price Liberalization of Industrial Products; Patent and Trademark Laws.
1983	State-owned Enterprises (SOEs) taxed instead of Profit Sharing; Collective Enterprises Encouraged; People's Bank of China begins to assume some functions of a central bank.
1984	Fourteen Coastal Cities Opened Up to Overseas Investment; Director-Responsibility System TVEs Created.
1986	Labor Contract System Introduced.
1988	The Chinese constitution was amended to refer to self-employed individuals and private enterprises as "useful supplements" to socialist public ownership; SOE Contract Responsibility System; Regulations on Private Enterprises Published; Enterprises and Bankruptcy Laws Passed.
1989	New Regulations on Mergers; Joint-Stock Companies; Commercialization of Banks.
1990	Copyright Law.
1991	Delegation of Direct Foreign Trade Rights to SOEs; Pension and Housing Reform; Establishment of Shanghai and Shenzhen Stock Markets.
1992	Deng Xiaoping's Southern Tour; Patent and Trademark Laws Revised; New Operating Mechanism and Autonomous Rights to SOEs.
1993	The decision was made to build up a socialist market economy, when the Fourteenth Party Congress proclaimed that some small SOEs may be sold, leased or reconstituted as shareholding companies; Principle of "Socialist Market Economy" Replaces "Socialist Commodity Economy"; Decision of the Third Plenum on Establishing Modern Enterprise System; New Competition Law; New Accounting Standards Introduced.
1994	Foreign Exchange Reform; Fiscal and Tax Reform; Implementation of Company Law.
1995	New Commercial Banking Law; People's Bank of China Law; Provisional Regulations Guiding Foreign Investment; Insurance Law.
1997	Private enterprises formally shook off their "supplementary" status, when the Fifteenth Party Congress proclaimed nonpublic ownership as an important component of China's "socialist market economy".
1999	The credit guarantee system detailing the nature of, and guidelines for SMEs credit guarantees, was established.
2000	The establishment of a venture capital market in Shenzhen city provided needed financial capital to promising SMEs.
2001	Acquire the membership of WTO.
2002	The law promoting SMEs was introduced, in order to further confirm the legal status of private businesses. An indication that SMEs were playing increasingly important roles in China's economy.
2004	The Chinese constitution was further amended to ensure that the state protected the legal rights and interests of individual businesses and private enterprises and encouraged their development.
2005	A document titled "State Council on Encouraging, Supporting and Guiding the Development of Private and Other Non-Public Owned Economies".
2006	The SME Growth Project.

Sources:

Anderson, Alistair R., Jin-Hai Li, Richard T. Harrison, & Paul J. A. Robson, 2003. The increasing role of small business in the Chinese economy. *Journal of Small Business Management*, 41(3):310-316.

Tan, Justin, Jun Yang, & Rajaram Veliyath, 2009. Particularistic and system trust among small and medium enterprises: A comparative study in China's transition economy. *Journal of Business Venturing*, 24:544-557.

allowed is to resolve the employment problem of rural surplus labors. Another form of SMEs in rural area was TVEs which played a very important role in improving rural economy and creating employment for rural workforce in China. In this decade, TVEs existed in four types of ownership structures: country- and township-run enterprises; village-run enterprises; farmers' cooperatives; and individual or family-run businesses (Harvie, Charles, 2002a: 51).

The key factors for the emergence and development of SMEs in both rural and urban China were government policies implemented in this stage, such as “Fiscal Autonomy to Local Government” solved the financial problem of SMEs; “Creation of Special Economic Zones” offered a big greenhouse for the rootage and germination of SMEs; “Labor Contract System Introduced” stipulated the industrial relations in SMEs, etc.. This stage can be called as the recovering time of SMEs after 10 year Cultural Revolution.

The second stage was from the late 1980s to the early 1990s. During this time, Chinese economy was transiting from planned economy into dual-track system with the market track gradually outgrowing the central planning track. Especially, the decision of building up a socialist market economy created an economic and political environment with liberalized competition for the development of SMEs. At the same time, the Fourteenth Party Congress proclaimed that some small SOEs may be sold, leased or reconstituted as shareholding companies in 1993. This policy made the state sector in economic system gradually replaced by private sectors and moved economic transactions to impersonal contractual exchanges. Many entrepreneurial opportunities were available for SMEs to flourish (Hall, 2007: 31).

In addition, the establishment of modern enterprise system and new accounting standards changed the organization structure and financial system of SMEs into an effective pattern. This is the significant foundation for the further growth of SMEs. Though the economic system was not mature and market-based economy was underdeveloped, even the private character of SMEs needed to be alleviated during the early stage of economic transition, the improvement of both quantity and quality of Chinese SMEs was absolutely spectacular. Without doubt, this stage can be named as the stably developing time of SMEs.

The third stage was from the early 1990s till now. This period can be deemed as the fast growing time of SMEs in China, because almost all of the Chinese SMEs have been born in the last ten years of 20th century (Hall, 2007: 29). This explosion of entrepreneurial businesses is unprecedented in human history (Hall, 2007: 30). Two important events are attributable to this attractive explosion.

The first key policy is that nonpublic ownership is as an important component of China's socialist market economy. This policy which proclaimed in 1997 legally recognized the existence and development of private enterprises in China, for their increasing contribution to Chinese economy. Without the restriction of “supplementary” status, SMEs expanded unprecedentedly

in both scale and quality, some of them even grew up to be large and famous companies. The second important event is that China acquired the membership of WTO in 2001. This event further opened the door for Chinese SMEs to connect easily with the whole world so that the import of advantage management and technology and the export of products from SMEs accelerated the flourish of Chinese SMEs and economic increase in China.

Furthermore, a series of policies for supporting SMEs proclaimed by government also made contributions to the widely considered golden age of SMEs. For example, the SME promotion law, proposed in 2002, lays the groundwork for public support for small and medium enterprises (Liu, 2007: 43). According to this law, the lawful investments of SMEs, their equity investors alongside their investment earnings, and the legal rights of SMEs including their rights to fair competition and fair trade are protected by government (Liu, 2007: 44). Meanwhile, the document issued by government in 2005 eased up market access conditions for non-public economies, while the SME Growth Project conducted in 2006 supported SMEs from nine aspects, including cultivation of social service system, SME structural adjustment, SME training, innovative ability, etc. (Liu, 2007: 44).

3.2 Globalization

With the development of science and technology, especially the rapid upgrading of information technology, the world's economic order is increasingly integrated through communication, transportation, and trade. Economic globalization which targets to reduce international trade barriers such as tariffs, export fees, and import quotas has already become the main trend of world economic growth. After the reform and open policy proclaimed and implemented by Chinese government in 1978, and China became the member of WTO in 2001 especially, the relationship between China and the whole world has become spectacularly intensive. The unprecedented integration of Chinese economy with the international economy caused by globalization provides great opportunities and challenges for the development of Chinese SMEs. In other words, all these opportunities and challenges in the process of globalization are not only the powerful engine of Chinese economy, but also drive Chinese SMEs internationalized.

The main channels that Chinese SMEs integrated themselves into world market are through trade, FDI, capital flows, migration, and the spread of technology. In the process of internationalization, SMEs are achieving growth and flourish in the following aspects.

Adequate funds

Though Chinese government has implemented favorable financial and taxation policies to supply SMEs loans, the scarcity of funds is still restricting the development of Chinese SMEs. Limited funds directly lead to subsequences like suspension of technological innovation, descent of R&D capability, ceasing of production, etc. Only if SMEs connect themselves with global

market, they can get adequate funds from international financing and selling products in world market to get further development. Foreign investment is a direct way for SMEs to get capital, but it is intensively impacted by the reputation of SMEs and local economic performance.

Technological upgrading

China has the cheapest labor in international labor pool, but expensive capital and natural resources press SMEs to choose advantage technology to decrease product costs which is the core competition in world market. Through international consultants, licensing arrangements between local and foreign companies, sending local workers abroad for training, and encouraging multinationals' affiliate plants to engage in mentoring partnerships with their local supply chains (Kanamori, Toshiki et al., 2007: 31), SMEs upgrade their knowledge base and enhance international technological transfer.

Broader overseas market

Chinese domestic consumption is relatively low, because domestic saving is high (Hall, 2007: 32). Hence, Chinese SMEs have to pursue broader foreign market to acquire capital and technology to improve them. For one thing, globalization makes it easy for Chinese SMEs accessing into overseas market because of the reduction of entry barriers. Remarkable growth of export in recent years from SMEs contributes greatly to the capital inflows which directly resolve the problem of limited funds that block the development of SMEs in China. For another, the operation of foreign market is totally based on the international market competition mechanism. In other words, all the economic activities, products, and services from Chinese SMEs have to be tested by this survival of the fittest competition mechanism. Though the cost of competition is serious, SMEs can clearly understand their shortages and absorb advantage technology and management through communication with peers of different economic and cultural background in the brutal competition.

Though the methods that Chinese SMEs participate in the world market are different, without doubt, economic globalization is one of the most vital factors that drive Chinese SMEs internationalized and keep them continuously flourish, eventually improve Chinese economy.

3.3 Economic factors

The establishment and growth of SMEs rely very much on the stable and prosperous economic environment and enough capital. Based on the principle of “pragmatism” which balanced the pace of reform with social stability (Tan et al., 2009: 547), Chinese economy has experienced a continuous and stable increase in the last three decades. Along with the prosperity of economy, financial market and institution in China are trending into mature. This can guarantee enough funds for the development of SMEs, besides exports and capital flows in world market. Detailedly, the key economic factors which drag Chinese SMEs forwards are:

Fiscal decentralization

Since the fiscal decentralization was conducted in 1984, local government was authorized to control the regional finance. This act created huge space for the growth of SMEs and strongly stimulated the development of local industry. The local government and SMEs no longer need to worry about borrowing money from higher level of government, but focus on the need for SMEs to be effective, competitive and profitable in the period of rapid expansion of Chinese SMEs. Though fiscal decentralization greatly enhances the flexibility for SMEs to get financial support, the supervision from the state becomes hard to achieve.

Maturing financial system

During the early time of economic transition, Chinese SMEs found it difficult to get financial supports like loans from bank, because they were usually perceived as being more risky than those of large SOEs. This kind of uneven treatment seriously restrained the development of SMEs. With the perfection and maturation of Chinese financial system, SMEs are no longer evaluated according to their size or whether they are state or private when they apply for fiscal support. The implementation of flexible loan interest rate based on loan risk, the establishment of institution of loan guarantee funds, the formation of more transparent accounting framework, and the introduction of SMEs' credit system not only decline the risk of bank, but also make it easier for SMEs to get adequate capital than before. In addition, with the foreign banks engaging into domestic financial market after China became the member of WTO, SMEs will receive further improvement because of convenient currency borrowing.

Taxation incentives

As an effective tool of economic adjustment, tax revenue plays a quite important role in encouraging the development of Chinese SMEs. Taxation incentives like tax reduction and income tax waivers are mainly impacting SMEs in two ways recently. For one thing, the value-added tax and income tax are reduced when money is invested in technological innovation and R&D. For another, exports and FDI are also encouraged by tax deduction or export drawback.

Flourishing stock markets¹⁾

Since the officially opening of Shanghai and Shenzhen Stock Exchange in 1990 and 1991 separately, Chinese stock markets have attractively flourished in the last two decades. By 10 November, 2011, there are 928 listed companies in Shanghai Stock Exchange with Total Market Capitalization 165,799.31(RMB100 million) and 1384 listed companies with Total Market Capitalization 79,822.58 (RMB100 million) in Shenzhen Stock Exchange. As the home for SME IPOs (Initial Public Offerings), Shenzhen Stock Exchange has 626 listed SMEs with Total Market

1) All the data in this part are available at <<http://www.sse.com.cn/sseportal/ps/zhs/home.html>> in 2011-11-10; <<http://www.szse.cn/main/marketdata/tjsj/jyjg/>> in 2011-11-10.

Capitalization 32,793.71 (RMB100 million). Most of these companies are applying the advantage accounting standards in the world and hiring specialists to audit their books. Chinese stock market has already been a big pool for SMEs to acquire enough funds to strengthen themselves.

3.4 Culture

Culture is the consequence when society and economy has developed into a certain degree and it contrarily influences the progress of society and economy and strongly impacts on micro-organizations' operation and people's behavior pattern during a certain time. As to SMEs, this kind of impact from culture is shown as setting up organizational culture and adjusting leadership/employee behaviors in practice. Hence, the developing history of Chinese SMEs is a vivid process that culture positively impacts SMEs in China. Nowadays, the main culture rooting deeply in Chinese SMEs are Chinese traditional culture and western modern culture.

First, Chinese culture is one of the oldest and the most complex culture in the world. After thousands of years' evolution and deposition, there has already been a great many of culture essences in which the most representative ones are Confucianism and Taoism. Confucianism has the most widespread influence on not only SMEs of Chinese mainland, but also on SMEs of almost all countries in East Asia, like Japan, Korea, Singapore, etc. The five constants (Humaneness, Righteousness, Propriety, Knowledge, and Integrity) and four characters (Loyalty, Filial piety, Contineness, and Righteousness) proposed by Confucianism greatly impact the relationship between entrepreneurs and employees as well as relationship among employees, entrepreneurs, and even among SMEs in China. The active expressions (power, virtue, and integrity) in Taoism are accepted as moral standards in business activities by most SMEs in China.

Furthermore, arising from the unique attributes of Chinese culture, Guanxi, based on personal contacts, connections and trust has long been considered an important ingredient in successfully conducting business in China (Tan et al., 2009: 544). The culture of Guanxi, concerning an informal relationship between individuals in or out SMEs like the connection among acquaintances, relatives, classmates, and people from the same hometown and so on, exists in almost all business activities of SMEs, during the time when China has been experiencing economic transition. Though the culture of Guanxi sometimes causes more or less unfairness in business operation, it contributes a lot to the efficiency when institutions are completely absent or inadequate in economic transition.

Second, because of the progress of globalization, western modern culture is immerging into Chinese society and significantly influencing SMEs in China. In western culture, "fairness and liberty" is the core value and the basic tenet. It is believed that all human beings are born free and equal in dignity and rights (UDHR, 1948). All the people are endowed with rights to be rewarded according to their contribution. This kind of cultural value is propitious to break up

the bureaucratism and ranking system which have long existed in Chinese society. Based on the faith of equality, Chinese SMEs has prompted to establish more even industrial relations, while the belief of liberty stimulates the flow of capital and human resources. Both of the fairness and liberty provide more opportunities for the rapid development of SMEs in China.

Moreover, in western culture, clear demarcations are established between personal relationships and business relationships (Tan et al., 2009: 544). The former are typically based on affective, emotional belief or kin-based commonalities, whereas business relationships are based on consensually agreed on business practices, the laws relating to contracts, the institutional frameworks that govern these contracts and their consequent enforceability (Tan et al., 2009: 544). The immigration of western culture custom is good for the construction of modern enterprise system and more perfect institutional framework in China.

3.5 Networks

The rapid growth of Chinese SMEs can be attributed to a novel model that SMEs integrate all the resources together. This kind of developing model is industrial cluster by which SMEs established sound network with each other and with wider business community. The good relationship of internal and external of SMEs cluster plays a crucial role in collective development of materials supply, production, sale, and technological innovations in a bid toward market expansion.

The government-SMEs connection represents the most important relationship for the development of Chinese SMEs. China has experienced economic reform from centrally planned to market economic system for many years, but government still plays an important part in controlling the growth of economy and the destiny of SMEs, because of the underdeveloped market economic system. Government is not only the policy maker, but also the source of information and the pool of social resources. In recent years, government encourages qualified enterprises to expand their network (Liu, 2007: 45), and it also promotes merger and acquisition activities among SMEs, alongside reorganization and optimized resource utilization. Provision of government subsidy or loan facility is intended to support and encourage SME technological innovations with large enterprises (Liu, 2007: 46). In order to establish good relationship with local government, some SME entrepreneurs even actively invest in “political capital” to overcome obstacles in the process of development by pursuing membership in the legislative or semi-legislative organs of the Chinese government (Yao, Yang, & Linda Yueh, 2009: 760).

In addition, the networks concerning about the relationship between SMEs and other business communities, including SOEs, foreign companies, financial organizations, R&D institutions, furthermore, the other SMEs, contribute greatly to SMEs’ promotion as well. SOEs are considered to be a significant component in the successful growth of SMEs. Almost all SMEs have

constructed various ways of economic and technological cooperation with SOEs as a source of capital, material, equipment, specialized personnel, technology, subcontracting arrangement and sales revenue (Harvie, Charles, 2002a: 67). The cooperation with foreign companies assists SMEs to expand their overseas market, join the international competition, and acquire funds and technology. Moreover, the well-placed connection between SMEs and financial organizations, like banks and stock exchanges overcomes the capital obstacles for SMEs' development, while the good relationship between SMEs and R&D institutions, like universities and some research units upgrades technology for the growth of SMEs.

4 . Conclusion

Chinese SMEs have been tightly connected with the economic miracle of China in the past three decades. They accelerate the growth of Chinese economy through creating employment, technological innovation, and export, etc.. This paper revealed the contributions of SMEs to Chinese economy by using data before the economic crisis which started in the year of 2008.

From the perspective of external environment of Chinese SMEs, the main part of this paper demonstrated the reasons behind the successful flourish of Chinese SMEs and their drastic contributions to economic growth in China. First, government policies led Chinese SMEs experiencing three developing stages during the past thirty years. Second, the process of globalization opened a big window for SMEs in China easily accessing world market to get adequate capital and upgrade their technology. Third, maturing financial system, taxation incentives, prosperous stock markets, and fiscal decentralization effectively resolved the funds problems when SMEs expanding themselves. Forth, culture factors which represented by Chinese traditional culture and western modern culture affected SMEs' performance indirectly through impacting organizational culture and behaviors of both entrepreneurs and employees. At last, sound networks among SMEs and other business communities supported Chinese SMEs in material supply, production, sale, technological innovations, and information sharing as well as market expansion.

Though the external factors have impacted significantly on the success of Chinese SMEs, the bottlenecks like inadequate funds and technological backwardness which have constrained SMEs for a long time need to be focused on. Especially, the future development of Chinese SMEs in and after the economic crisis is also worthy of exploring.

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