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China's remarkable economic growth has been achieved through the rapid emergence of a dynamic private sector. **Linda Yueh** explores what we know about the generation of self-employed entrepreneurs who have driven this transformation.

China's entrepreneurs

he central feature of China's transition from a centrally planned economy is the development of the non-state sector - private firms led by an emerging class of entrepreneurs. In 1978, the first year of reform in China, the state sector accounted for over 90% of the country's GDP; by 2005, this had fallen to less than half (see Figure 1).

Not all of China's growth achievements can be attributed to entrepreneurs. Rural industries - the township and village enterprises contributed a growing proportion from the early 1980s onwards and accounted for nearly a third of GDP in the mid-1990s. And foreign investors also played a role from around that time.

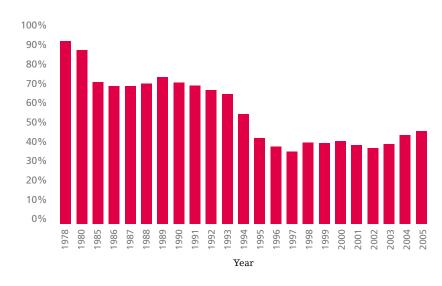
But since the late 1990s, China's entrepreneurs have been the key driver of growth. They are the creators of the de novo firms that are forming a dynamic and innovative private sector - an essential force in any developing country (see, for example, Wu, 2002, and Zhang et al, 2006).

What do we know about the people

who have had the wherewithal to start a business or work for themselves? What kinds of personal traits differentiate them from people who choose not to embrace entrepreneurship? The findings from a national household survey conducted in

China's economy is increasingly driven by competition, innovation and productivity

State-owned enterprises' share of GDP, 1978-2005



Source: China's National Bureau of Statistics

CentrePiece Spring 2008

urban China in 2000 shed some light on these questions.

The rise of China's entrepreneurial class

The dramatic growth in the share of selfemployed entrepreneurs in the Chinese workforce is evident from the mid-1990s (see Figure 2). It is most apparent in the rural areas where there were no recorded private enterprises until 1994.

The upward trend continues in urban areas as in the country as a whole. But in rural areas, self-employment now seems to be falling. Given the massive migration from rural to urban areas, this may well reflect the limited opportunities for rural industries to develop when competing against the advantages of urban companies and markets.

Overall, the increase in entrepreneurship in China bodes well for sustained economic growth. But the emergence of China's entrepreneurs has not been without obstacles. By guaranteeing employment and providing social security in the absence of a national safety net, the lifetime employment system in the state-owned enterprises (known as the 'iron rice bowl') strongly discouraged urban workers from becoming self-employed.

Not until the dismantling of the employment system and the massive layoffs accompanying the restructuring of state-owned enterprises in the mid-1990s did private Chinese firms begin to flourish (Knight and Yueh, 2004). And by providing an alternative source of employment and revenue, the emerging non-state sector has given the government leeway in its efforts to downsize and reform state-owned enterprises (Fan, 1994).

Another institutional challenge faced by entrepreneurs has been limited access to credit. A recent estimate by the first Chinese chief economist of the World Bank suggests that out of 40 million small and medium-sized enterprises in China in 2006, less than half of 1% could obtain loans from banks (Lin, 2007).

Aspiring entrepreneurs have also faced a shortage of key assets such as land or property (the property market did not develop until the late 1990s) and insecure property rights in a system that did not protect private ownership officially until 2004. Having property in China suggests being fairly well connected as urban (and, for the most part, rural) land is state-owned and privatisation of land and buildings has only begun recently.

When the survey asked entrepreneurs

Communist Party membership makes an individual less likely to be an entrepreneur

why they started their own business, 37% said that it was because they had the requisite skills and experience, 17% started a business by joining in with relatives, 11% had property and 7% had funds.

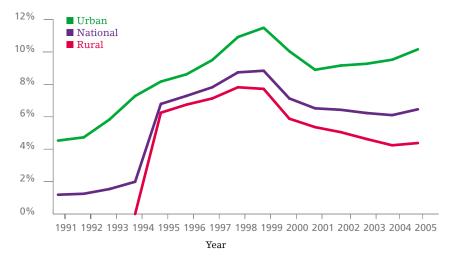
Comparing entrepreneurs and non-entrepreneurs

So which characteristics distinguish entrepreneurs from non-entrepreneurs in China? Comparing people who have started their own business as their primary or secondary job with people who remain in paid employment, the first notable difference is in annual incomes. As Figure 3 shows, between 1995 and 1999, the average entrepreneur earned over 35% more than the average person in paid employment.

As Table 1 shows, there are a large number of similarities between entrepreneurs and non-entrepreneurs. The average age of both groups is 35, both have identical years of education and nearly 85% of both groups are married.

There are, though, a number of

Figure 2: Entrepreneurs as a percentage of total employment in China: national, urban and rural areas



Source: China's National Bureau of Statistics

China's entrepreneurs are more likely to have experienced unemployment than people in paid employment

significant differences. The first is that nearly 18% of non-entrepreneurs are members of the Chinese Communist Party compared with just 6% of entrepreneurs. It may be that Party membership protects against retrenchment and thus reduces the likelihood of someone stepping out into the private sector.

Second, nearly a third of entrepreneurs have experienced unemployment compared with less than a fifth of non-entrepreneurs. This makes the difference in incomes all that more remarkable, as individuals who have experienced unemployment tend to suffer from 'scarring', which results in a lower wage when they are in work again. But having experienced unemployment during the large-scale layoffs of the mid- to late 1990s seems to be a significant factor in becoming an entrepreneur.

Third, entrepreneurs have larger social networks. In the context of a weak legal system and opaque regulatory structure, perhaps it is not surprising that starting one's own business requires contacts to secure supplies and distribution as well as operating licences.

The personal traits of Chinese entrepreneurs

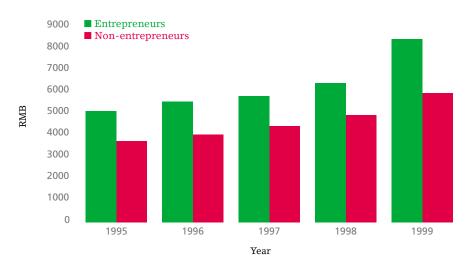
Considering all of the relevant personal, socio-economic and attitudinal traits, estimates of the probability of entrepreneurship find that women and people who have been in employment for a number of years are less likely to be entrepreneurs. Some features of an individual's socio-economic background also affect his or her potential for entrepreneurship.

Having a more educated mother or one who is in a non-manual or professional job increases the likelihood of entrepreneurship, while having a father who is a Communist Party member decreases the likelihood. Mothers who are more accomplished seem to encourage their children to start their own businesses, while fathers with connections to the Party seem to reduce the job insecurity of their children.

Having a larger social network and a willingness to embrace risk also significantly increases the likelihood of becoming an entrepreneur.

A number of questions about attitudes asked of a sample that had experienced unemployment are also revealing. When

Figure 3:
Annual incomes of Chinese entrepreneurs and non-entrepreneurs in renminbi (RMB)



Source: Chinese Household Income Project survey, 2000

Table 1: Differences between Chinese entrepreneurs and non-entrepreneurs

Personal characteristics	Entrepreneurs	Non-entrepreneurs
Age	35.6	35.8
Years of employment experience	12.3	22.8
Have experienced layoff	27.8%	19.2%
Years of education	9.4	9.4
Gender	55.7% male	49.7% male
	44.3% female	51.3% female
Marital status	83.4% married	84.2% married
Communist Party member	6.2%	17.7%
Social network (size)	8.2	6.4
Socio-economic background		
Father's education (years)	5.4	5.2
Mother's education (years)	6.0	5.9
Father is/was Communist Party member	26.5%	34.2%
Mother is/was Communist Party member	8.7%	10.8%
Father is/was self-employed	3.9%	2.8%
Mother is/was self-employed	1.7%	1.8%
Father is/was non-manual worker	22.3%	28.4%
Mother is/was non-manual worker	8.1%	13.7%
Income		
Annual income (RMB)	8475	5986
Average annual income (RMB), 1995-98	5751	4312

Source: Chinese Household Income Project survey, 2000

CentrePiece Spring 2008

considering an opportunity for work, both entrepreneurs and non-entrepreneurs value wages, social security provision, good working conditions and the ability to learn skills on the job.

But they differ in that entrepreneurs do not worry as much about job stability or job dignity, and curiously, despite their higher earnings, they are less inclined than non-entrepreneurs to hope that their children will become entrepreneurs. And as is found among entrepreneurs across the world, the drive to earn money is a significant determinant of entrepreneurship.

Conclusion

The remarkable growth of China has been driven by various engines. The most notable is the development of the non-state sector, fuelled by the desire of millions of Chinese people to seek a better life. The easing of the state's control over the economy allowed the emergence of a generation of entrepreneurs, who have transformed the economy into one increasingly driven by competition, innovation and productivity.

The personal traits of China's entrepreneurs have much in common with those who remained in paid employment. But there are also notable differences: being female, older or a member of the Communist Party all significantly reduce the probability of becoming an entrepreneur.

These traits are not dissimilar to entrepreneurs elsewhere (see, for example, Djankov et al, 2005). Being female and older tend to discourage people from starting their own business in many countries. And as in the West, social networks, a healthy attitude to risk and an inclination to work hard are all traits associated with entrepreneurs in China.

Until recently, not much was known about these entrepreneurs, but the emerging picture is one of a group of individuals who are able to navigate China's uncertain institutional terrain and find opportunities in the world's potentially most significant market. Their foray into overseas markets is as inevitable as the rise of China.

This article summarises 'China's Entrepreneurs' by Linda Yueh,
University of Oxford, Department of
Economics, Discussion Paper No. 324
(http://www.economics.ox.ac.uk/Research/wp/pdf/paper324.pdf) and forthcoming in
World Development.

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Further reading

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Jian Zhang, Linxiu Zhang, Scott Rozelle and Steve Boucher (2006),' Self-employment with Chinese Characteristics: The Forgotten Engine of Rural China's Growth', Contemporary Economic Policy 24(3): 446-58. Forays by Chinese entrepreneurs into overseas markets are as inevitable as the rise of China