

# How to Promote the High-Quality Development of Private Enterprises

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**Abstract:** At present, high-quality development of private enterprises has become urgent for high-quality economic development. This paper starts from the current situation of high-quality development of private enterprises, analyzes the problems and difficulties in the process of high-quality development of private enterprises, then puts forward corresponding policy recommendations.

**Keywords:** Private Enterprises; High Quality Development; High-Quality Development of Private Enterprises

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## 1. Introduction

At present, China has shifted from high-speed growth to high-quality development. The Report of the 20th National Congress of the Communist Party of China (CPC) clearly points out that high-quality development is the primary task for building a socialist country in an all-round way. We should build a high-level market economy, uphold and improve the basic socialist economic system, unswervingly consolidate and develop the public sector of the economy, unswervingly encourage, support and guide the development of the non-public sector of the economy, and give full play to the decisive role of the market in allocating resources. We should better leverage the role of the government. Private economy is an important supplement to the socialist market economy, and private enterprises are the most active subjects in market concentration. It is an important content and key link to promote the development of non-public economy, achieve high-quality economic development. However, in recent years, the trend of "anti-globalization" has intensified, geopolitical conflicts and military conflicts have intensified the uncertainty of the development of private enterprises, and the value private enterprises are at a relative disadvantage in the market decision-making, which further hinders the pace of high-quality development of private enterprises. Therefore, it is of great significance to study the promotion path of high-quality development of private enterprises.

## 2. Status quo of private enterprise development

In terms of the development scale of private enterprises, according to the data released by the National Bureau of Statistics, from 2014 to 2021 (except 2018, the same below), the number of corporate entities showed a continuous upward trend, with the absolute number increasing from 10.61 million in 2015 to 28.66 million in 2021, an increase of 170%. The number of private enterprises also showed a continuous upward trend, especially the growth of private holding enterprises was the most obvious, from 9.02 million in 2015 to 27.54 million in 2021, with an increase of up to 205%, occupying a dominant position in the development of enterprises. The number of enterprises from Hong Kong, Macao and Taiwan and the number of foreign-controlled enterprises did not change significantly, while the number of other enterprises showed a certain fluctuation and decline trend. However, because this type of enterprises accounted for a very small proportion of private enterprises, its decline trend had little impact on the overall change of private enterprises.

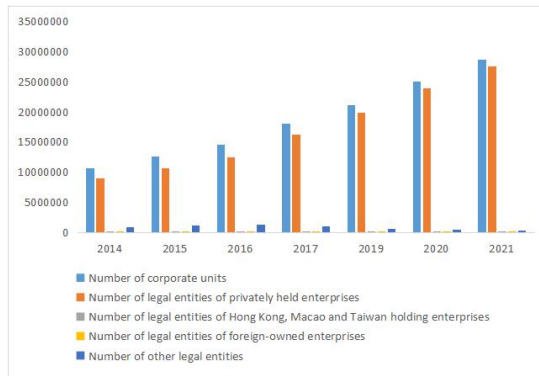


Figure 1 Changes in the number of legal entities of private enterprises

Note: In this paper, private enterprises generally refer to all non-public enterprises except state-owned holding, collective holding and foreign holding. Data for 2018 are not available.

In terms of changes in industrial added value, according to the latest Statistical Bulletin on National Economic and Social Development in 2021, the total industrial added value in 2021 was trillion yuan, an increase of 9.6% over the previous year. The added value of industries above designated size increased by 9.6%. Among the industrial enterprises above designated size, the added value of state-owned holding enterprises increased by 8.0 percent; Joint-stock enterprises and enterprises invested by foreign investors, Hong Kong, Macao and Taiwan enterprises increased by 9.8% and 8.9%, respectively. And private enterprises by 10.2 percent. It can be seen that the industrial added value of private enterprises has a large increase, which is higher than that of state-owned enterprises. Among them, private enterprises have the largest increase, occupying an important position in the total industrial added value, and making a great contribution to the increase in the added value of industrial enterprises.

From the perspective of profit margin change, according to the data released in the China Enterprise Credit Development Report 2021, the profit margin of Chinese enterprises in 2020 is 4.56%, 0.67% higher than 3.89% in 2019; The profit margin of assets was 2.87%, up 0.83% year on year, and both the profit margin of revenue and the profit margin of assets showed a significant upward trend. However, the total profit decreased by 6.23 percentage points, down 15.61 percentage points from 9.83% in 2019, showing the first negative growth since 2014. It can be seen that the overall profit margin of all enterprises in 2020 is at a low level, and the situation of private enterprises is even worse. The report predicts that due to the COVID-19 epidemic, geopolitical conflicts, military conflicts and other uncertain factors, the profit margin of private enterprises will continue to decline in 2021, and the loss surface will continue to expand. In 2020, the total profit of private enterprises, which account for the largest proportion of private enterprises, will reach 6,846,501 million yuan, an increase of about 4.05% compared with 2019. In 2020, the total profits of private enterprises reached 9,293.303 billion yuan, up 35.73 percentage points year-on-year. It can be seen that in order to promote the recovery of the overall profit margin of enterprises, it is necessary to promote the sustained growth of private enterprises.

In terms of employment, Figure 2 shows the changes in the number of employed people in private enterprises from 2013 to 2019. It can be seen that since 2013, the number of employed people in private enterprises has continued to rise, from 218.57 million in 2013 to 405.24 million in 2019, with a growth rate of more than 85%. Their contribution to solving the employment problem has also continued to increase.

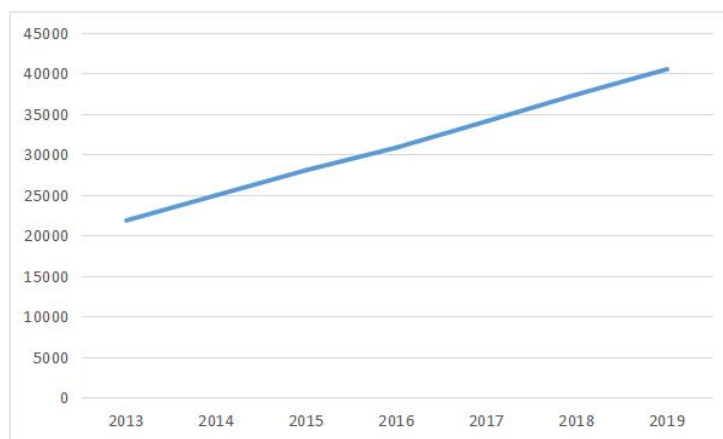


Figure 2 Changes of employed persons in private enterprises (data from the National Bureau of Statistics)

### 3. The dilemma of high-quality development of private enterprises

Imperfect property rights system. Under the current economic situation, the property rights system of private enterprises is becoming more and more important. However, the family management mode leads to the four major problems that the property rights system of private enterprises in China is faced with: imperfect legal system, incomplete market-oriented reform, severe economic situation at home and abroad, and tight financing environment<sup>[1]</sup>. All these problems lead to the property rights system of private enterprises in China lagging behind economic development, and the improvement of property rights is very difficult, which restricts the pace of high-quality development of private enterprises.

Financing difficulties. At present, financing channels are not smooth, and financing difficulties are a major problem faced by private enterprises<sup>[2]</sup>. On the one hand, the infrastructure of private enterprises is weak, the fixed plant, office space and equipment, production equipment and other areas are small or from leasing, and different from state-owned enterprises, the financial support of the anarchic sector and the government credit guarantee make their overall credit level low, the credit line available is small, and the financing is more difficult.

Enterprise management lag, management system is not reasonable. The corporate governance structure directly affects the performance of an enterprise and is an important factor restricting the further expansion and development of the enterprise<sup>[3]</sup>. At present, more than 80% of China's private enterprises are family enterprises<sup>[3]</sup>, which adopt the traditional management mode of favor and experience, which leads to a high degree of centralization of power, and the power of planning, execution and supervision is concentrated in the hands of one or a few people. When the market environment changes, if the decision-maker lacks the sensitivity of market information, it will inevitably lead to wrong decisions and bring adverse effects.

Lack of human resources. First, due to China's special institutional and cultural background, in the process of job selection, job seekers will choose state-owned enterprises with "more stable", "government credit" and "potential welfare", and high-end talents are more inclined to work in government departments, state-owned enterprises and collective enterprises. Therefore, private enterprises lack talent attraction. As a result, private enterprises lack talent attraction, resulting in insufficient human resources. Second, compared with state-owned enterprises, private enterprises themselves are not sensitive to the market, the system is not perfect, the strength of talent protection is small, and the lack of welfare treatment for talent introduction, which also greatly reduces their talent attraction.

Resistance to digital construction. With the development of big data, artificial intelligence, Internet, Internet of Things, cloud computing and other digital technologies, China's economy has entered the era of digital economy, and the pace of enterprise digitalization is in full swing. However, private enterprises in China lack of independent intellectual property rights, core technology is controlled by people, weak competitiveness and other problems have gradually become prominent. At the same time, due to the lack of funds, less investment in research and development, weak research and development ability leads to low level of technological innovation, which greatly restricts the introduction and development of digital technology, digital platform construction of private enterprises.

External environment restrictive. Due to the characteristics of small scale, weak financial strength, imperfect production management system, lack of risk aversion and response measures, and low policy sensitivity, private enterprises in China are greatly affected by the external environment, and the ability to predict, respond to and prevent external environment changes is weak. The impact of external environment changes on private enterprises is much greater than that of state-owned enterprises. Therefore, in recent years, the global economic downturn, the prevalence of the "anti-globalization" trend, geopolitical conflicts and other changes in the external environment have greatly restricted the in-depth development and high-quality transformation of Chinese private enterprises.

### 4. Important measures to promote the high-quality development of private enterprises

Based on the above analysis, this paper puts forward the following policy suggestions:

Firstly, the property rights system should be gradually improved. According to the above analysis, family enterprises are the main reason for unclear property rights of enterprises. Therefore, private enterprises should be guided to separate enterprise property rights from family property rights by means of property verification, property rights definition and debt clearing, and participate in and guide the development of private enterprises by means of investment, equity participation and holding, so as to realize the diversification of property rights of private enterprises. To promote the high-quality development of private enterprises.

Second, we need to accelerate the improvement of the enterprise management system. The above analysis shows that family management leads to great drawbacks in the management system of private enterprises, which leads to the shortage of talents, financing difficulties and other problems. To

solve these problems, it is necessary to actively guide private enterprises to strengthen internal supervision and optimize governance structure through equity reconstruction, improvement of board of directors and board of supervisors system, improvement of financial regulations and procedures, so as to improve the conditions for enterprises to carry out digital transformation, attract talents and attract investment.

Third, we should gradually improve the risk aversion system and enhance the ability of enterprises to prevent and defuse risks. First, we need to make investment more scientific and effective. Investment by private enterprises should follow the direction of China's development needs, increase investment in new forms of business and the real economy, cut investment in sunset industries and the virtual economy, and reduce investment risks. Second, we need to expand financing channels, raise funds through multiple channels, and reduce financing risks. Third, we need to strengthen supervision over the whole process of production and capital circulation of enterprises, establish a regulatory information base, enhance the transparency of enterprises' funds, and improve their ability to predict risks. We will strengthen enterprises' ability to deal with external risks.

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