

II. References

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1. Background, scope and results

(1) Background, purposes and scope

1) Background and purposes

(1) Background and purposes of investigation

The Chinese Government has recognized the role of the small and medium enterprises as the good player for the economical development and the new employment of the surplus workers and started to endeavor to realize the policy for the promotion of the small and medium enterprises. Organizationally, the Small and Medium Enterprise Department is established in the State Economy and Trade Commission, PRC and is considering the fundamental aim of the policy. Even in the level of the provinces and cities, it is requested to draft and pursue the concrete plan for the promotion measures based on the basic policy of the State Government.

As for Hangzhou City, the further development growth in the future is expected as an advanced and peculiar model city in the coast area of China where the activities of the small and medium enterprises are lively. The City will examine the present situation of the small and medium enterprises and the politics for them according to this investigation and propose the direction and the concrete measures for the development of the small and medium enterprises with the aim to help the politics for the further promotion of the small and medium enterprises in Hangzhou City and serve as a reference for the policy of the State Government for the promotion of the small and medium enterprises.

In this investigation, not only the drafting of the plan, but also the concrete examination and guidance of the small and medium enterprises have been implemented, the betterment of the management of the small and medium enterprises has been performed and the examples of the examination and guidance has been prepared. The contents of this investigation are helpful for the staffs of the Government of Hangzhou City and the relevant bodies in charge of the promotion of the small and medium enterprises to understand the real situation of the small and medium enterprises and the common issues of the results of the examination and guidance will be spread and useful in the other cases.

In this investigation, the establishment of the small and medium enterprise network and the advisory service of the investment fund are selected as the pilot project (trial), because they are considered as the urgent and effective measures.

(2) Scope of investigation

The objects of this investigation are the manufacturing small and medium enterprises in Hangzhou City and the scale of the enterprises is decided according to the definition of the small

medium enterprises in China. All the enterprises of the state, group and private ownership are included. The investigation consists of the policy for the promotion of the small and medium enterprises, the examination and guidance of enterprises and the pilot project. The relationship is shown below

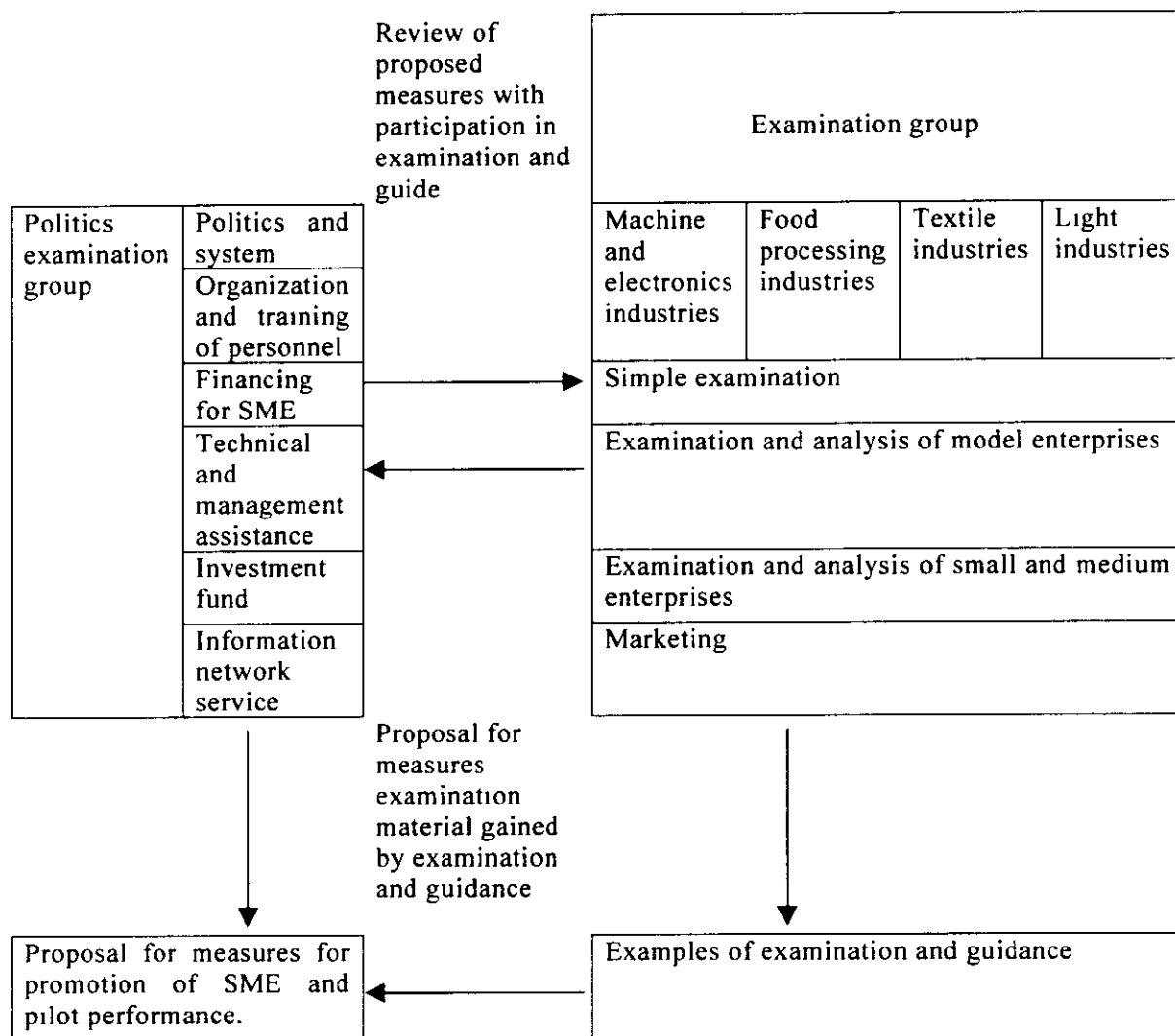


Figure II-1 Scope of investigation

(2). Results of investigation

This investigation has achieved the following good results in a rather short period of time under the best cooperation of the people concerned in Hangzhou City. The politics of Hangzhou City for the promotion of the small and medium enterprises has just started and it is the great pleasure of the investigation team if the results of this investigation will be useful for the preparation of the concrete politics and the establishment of the necessary organizations.

- 1) About the promotion politics of Hangzhou City for the small and medium enterprises, the problems which the small and medium enterprises are suffering from and the present situation of the promotion politics for the small and medium enterprises and of the performing organizations (including the organizations of the City and financing bodies) have been examined, so that the issues to be improved are pointed out and the proposal for the improvement are provided. The estimates for the budget of the City necessary for the improvement are also added according to the request of Hangzhou City
- 2) The examination and guidance of several enterprises has been performed and the concrete effects have been achieved in a limited scale. The results of the examination and guidance have been issued as the examples of the examination and guidance. The problems that the small and medium enterprises are suffering from were also investigated through the examination and guidance and reflected to the proposal for the politics.
- 3) The small and medium enterprise network is established as a pilot project. This is realized for a specified scope within a limited time and money as a trial one. It is commenced satisfactorily under the good efforts of Hangzhou City, operated constantly and contributes to the concrete promotion of the small and medium enterprises. When an additional service may be carried on in the future, the newly established organization will be useful for the expansion of services and effective for the cases when a small and medium enterprise network is established in the other cities in China
- 4) The advisory service of the investment fund is provided as a pilot project and the establishment of the investment fund of the limited partner system (LPS) is prepared with the aim of the modernized improvement of the small and medium enterprises of the non-high-tech fields. The LPS investment fund for this purpose is the new one in China and will be a new step for a direct financing for the small and medium enterprises in China when it will be realized. In this sense the advisory service for investment fund will contribute greatly as a pilot project.

2. China

(1) Economy of China

The economy of China has made a rapid progress after adoption of the socialistic market economy politics and made unprecedented development for a long period of time after 1980 as shown in the table II -1

Particularly, the development of the secondary and third industries is remarkable as indicated in the tables II -1 and II -2

One of the supporting elements of the development is the expansion of the foreign trade and its volume is enlarged as in table II -3. Recently, the export exceeds the import in volume substantially and the international balance of payments is improved.

As a result, the standard of living of the people is raised and the electric home appliances are now widespread in the cities as shown in the table II -4.

China owes this development to the facts that the government is stable, there are the clear and strong economic politics of the Government and, on their hand, the rich and high-quality human resources are available for a relatively lower cost in comparison with the foreign countries

The table II -5 indicates the estimated wages in the neighboring cities and it shows that the wage level in China is remarkably lower in comparison not only with Japan, but even with Korea and Taiwan.

The advantage of China is the large-scaled domestic market and the rich resources of good quality. The "lower price and poor quality" products depend on lower wages are now changed to "the high-quality" products and the reputation of the Chinese products in the overseas markets is improved. Further, owing to the strong leadership of Chinese Government, the high-tech fields are also greatly developed and the investments from the overseas industries are increased.

Table II -1 Rate of growth of GDP

GDP growth rate	General	1st industries	2nd industries	3rd industries
1980-85	10.71	8.24	10.00	15.22
1985-90	7.87	4.18	8.97	9.38
1990-95	12.00	4.15	17.38	10.33
1995-99	8.33	3.72	9.89	7.75

Source Chinese statistical yearbook

Table II -2 Number of employees (10,000persons)

	Number of employees	Ratio of primary industries (%)	Ratio of secondary industries (%)	Ratio of third industries (%)
1990	42361	68.7	18.2	13.1
1985	49873	62.4	20.8	16.8
1990	63909	60.1	21.4	18.5
1995	67947	52.2	23	24.8
1999	70586	50.1	23	26.9

Source Chinese statistical yearbook

Table II - 3 International trade (US\$ 100million)

	Export	Import	Difference
1980	181.2	200.2	-19
1985	273.5	422.5	-149
1990	620.9	533.5	87.4
1995	1487.8	1320.8	167
1999	1949.3	1657	292.3

Source Chinese statistical yearbook

Table II - 4 Durable consumer goods (per 100 homes; in city)

	1985	1990	1995	1999
Bicycle	152.27	188.59	194.26	183.03
Washing machine	48.29	78.41	88.97	91.44
Refrigerator	6.58	42.33	66.22	77.74
Color TV	17.21	59.04	89.79	111.57

Source Chinese statistical yearbook

Table II - 5 Comparison of wages in neighboring cities

Wages	Beijing	Shanghai	Dalian	Hongkong	Soul	Taipei	Bangkok	Yokohama
Worker	177	126 - 272	51 - 195	778 - 1,560	536 - 1,159	665 - 786	147	3,288
Engineer	309	181 - 544	72 - 278	853 - 1,924	1,002 - 1,509	1,088 - 1,451	325	4,234 - 5,001
Manager, middle class	566	290 - 906	62 - 458	1,766 - 3 100	1,544 - 1,996	1,511 - 2,418	646	5,246 - 6,222

Unit US\$, based on hearing and /or average of Japanese manufacturing industries

Source JETRO March 2001

(2) Small and medium enterprises and the politics for small and medium enterprises in China

1) As the materials of the Administrative Control Office for Industrial and Commercial Enterprises and the statistics of the National Industry Research 1995 indicate, the actual situation of the small and medium enterprises is greatly contributing to the Chinese economy (GDP, net profit, acquisition of foreign currency, employment).

Table II - 6 Share of small and medium enterprises in China (1998)

Number of registration	GDP	Net profit	Acquisition of foreign currency	Employment change in cities	Employment of labor from farming group 1978-1996
99%	60%	40%	60%	75%	56%

2) Politics for small and medium enterprises in China

a) The enterprise control is pursued according to the type of ownership and the industrial sector without any unified system for the preparation of the general politics and the guidance for the small and medium enterprises and specific service system for the small and medium enterprises. Further, under the planned economy, there were mainly "instruction" and "control" only. However, according to change to the market economy, "promotion" and "support" are now required.

b) The importance of the promotion of the small and medium enterprises was recognized in China at the time of the monetary crisis in Asia in 1997. At that time there was the great damage to the Chinese enterprises including the town and township enterprises. The small and medium enterprises have attracted considerable attention as new employment place of the jobless labor because of the reform of the government-owned enterprises.

c) In 1998 the Economic Development Center of the State Council investigated the small and medium enterprises in Zhejiang and Jiangsu Provinces and it is acknowledged that the social

evaluation of the small and medium enterprises was low, on the other hand, there were issues such as lack of resources and management ability and problems caused by household management.

d) From this point of view, the proposal for the promotion of the small and medium enterprises was submitted

e) In this year, the system of the State Council was reformed and the Small and Medium Enterprise Department was established in the State Economy and Trade Commission, PRC. The control functions related to the small and medium enterprises which many organizations pursued separately were then concentrated and the Small and Medium Enterprise Department is now in charge of the duty to coordinate the reform and development of the small and medium enterprises in the country.

f) From April 1999, the State Government has provided the working group of the Economic Development Center of the State Council, the State Economy and Trade Commission, PRC., The Social Science Council, the Legislation, the Ministry of Finance and the men of learning and experience with an aim to provide the legal system for the small and medium enterprises and the drafts of the related laws are under way

g) On July 6 2000, "Political Opinions to encourage and Assist the Development of the Small and Medium Enterprises" is proposed and distributed to the bodies concerned asking the positive reaction

The contents of this Opinion consist of eight items as shown in the next figure

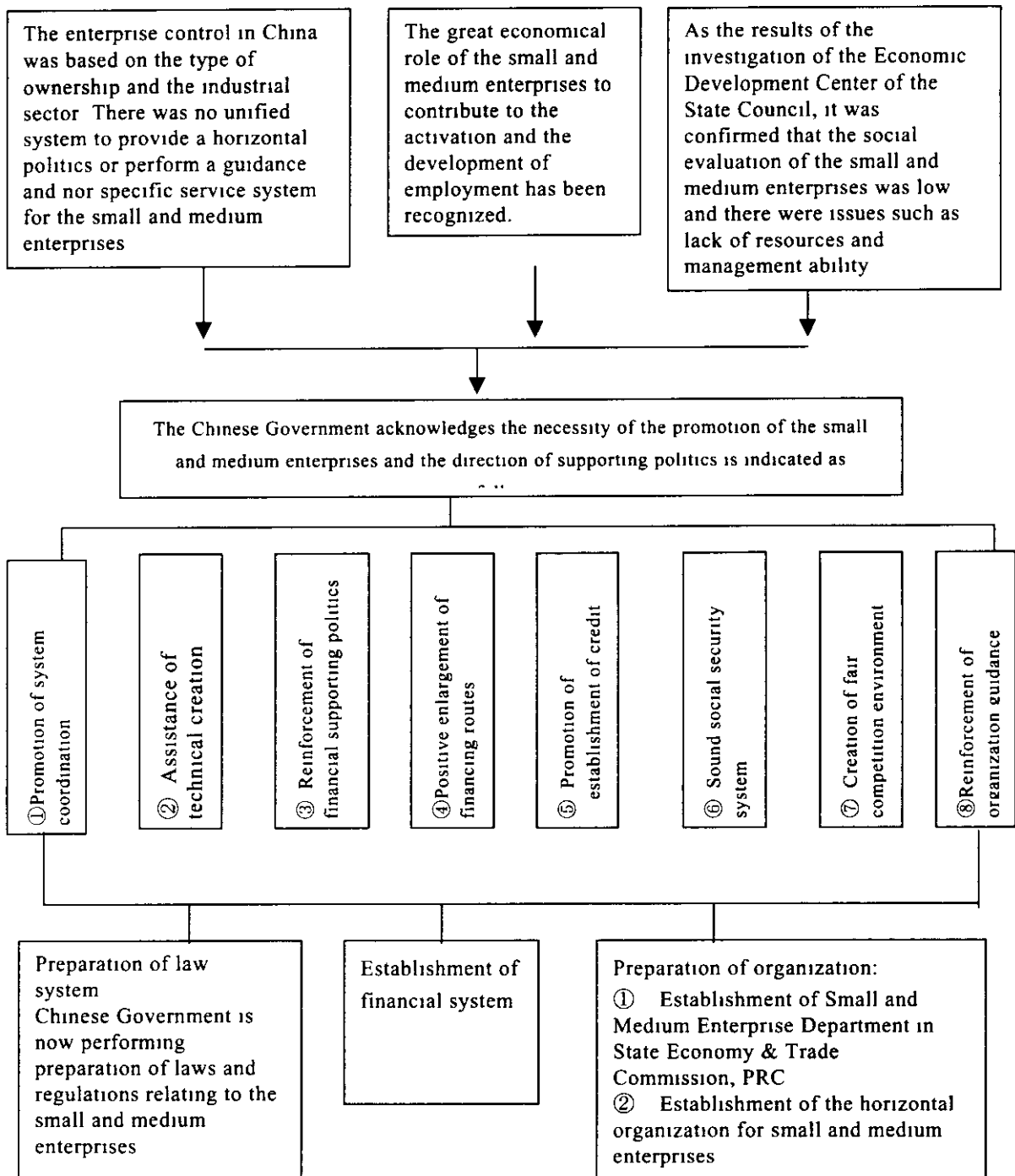


Figure II - 2 Policies of small and medium enterprises of Chinese Government

3. Hangzhou

(1) Economy of Hangzhou City and Its Small and Medium Enterprises

(Chapter 2 of main text)

1) Economy of Hangzhou City

Advanced economy: Zhejiang Province lies around the lower reaches of River Changjiang and is one of the largest foothold for development of China. In the gigantic domestic market with world's largest population of 1.25 billion, Zhejiang Province has a population of 44.75 million (ninth place) and Hangzhou City has that of 6.16 million. GDP of Zhejiang Province is in the fourth place in China (Table II-7). In 15 large cities (cities having the administrative organizations of the Vice-Province rank), Hangzhou City takes the third place in GDP, fourth place in gross industrial product, third place in total amount of export and fifth place in disposable income of urban inhabitants as shown in Table II-8.

2) High growth rate: Average annual growth rate of GDP of Zhejiang Province from 1991 to 1999 was as high as 15.4% (according to Yearbook of Zhejiang Province, p 11) and that of Hangzhou City was 18% as shown in Table II-9 (according to Yearbook of Hangzhou, p 18), that are prominent even in China that shows a high economical growth. As shown in II-7, income per person in the urban areas in Zhejiang Province is in the fourth place following to Shanghai, Beijing and Guangdong. Wages of laborer per person is also high.

3) Reform in industrial constitution: Conversion to the market economy is the source of high economical growth. As shown in Table II-10, in Hangzhou City the state-owned has reduced in both of number of enterprises and amount of production and enterprises of aggregated enterprises has also reduced in number.

4) Main industries in Hangzhou City at present are: machinery (parts for boiler, elevator, gearbox, grinding machine, generator, electrical household appliances etc.), electric and electronic (telephone sets, parts of communication equipment, semi-conductors, parts of computer etc.), chemistry (rare earth, paint, dye, rubber products, plastic products etc.), medicine (intermediate for medicine, popular medicine, health promoting medicine etc.), spinning, sewing, light industry (daily essentials), food industry (soft drinks etc.), information industry (software) and others. Accordingly, there are many kinds of processing technologies. Characteristics of industries in Hangzhou City are: ① many enterprises full of enthusiasm for development (many chances of investment), ② existence of many excellent universities and research institutes that are basis of high-tech industries (information, medicine, etc.), ③ existence of assembly

industries as that of electrical household appliances that are in connection with parts industry, ④ accumulation of a specific industries in definite areas ⑤ many exporting enterprises ⑥ existence of raw materials for industry such as agricultural product and so forth.

- 5) Expectation of development: by affiliation with WTO, advantages as follows are expected: ① introduction of latest technologies and equipment, raising of raw materials and parts as well as modernization of industries are facilitated, and ② entry into international market is facilitated and the market is extended. There is a trend of utilizing the advantageous investing environment of Hangzhou City by foreign capital (Table II-12).

Table II-7 Situation of Zhejiang in China

Population	Province	(ten thousand persons)	GDP	Province	(100 million yuan)	Wages	Province	(yuan)	Income of urban inhabitants	Province	(Yuan per person in 1999)
1st	Henan	9,387	1st	Guandong	8,464	1st	Shanghai	16,641	1st	Shanghai	10,932
2nd	Shandong	8,883	2nd	Suzhou	7,698	2nd	Beijing	14,054	2nd	Beijing	9,183
3rd	Sichuan	8,550	3rd	Shandong	7,662	3rd	Xizang	12,962	3rd	Guandong	9,126
4th	Guandong	7,270	4th	Zhejiang	5,365	4th	Guandong	12,245	4th	Zhejiang	8,428
5th	Suzhou	7,213	15th	Beijing	2,174	5th	Zhejiang	11,201	5th	Tianjin	7,650
6th	Hebei	6,614	8th	Shanghai	4,035	6th	Tianjin	11,056	6th		
9th	Zhejiang	4,475									

Source: Statistical Yearbook of China

Name of city	GDP (100 million yuan)	Name of city	Gross Industrial product (100 million yuan)	Name of city	Total amount of export (100 million yuan)	Name of city	Disposable income of urban Inhabitant
Guangzhou	2,603	Guangzhou	2,362.6	Shenzhen	282.11	Shenzhen	
Shenzhen	1,400	Shenzhen	2,025.7	Guangzhou	78.22	Guangzhou	12,018.5
Hangzhou	1,225	Nanjing	1,309.1	Hangzhou	50.79	Amoy	9,626.0
Chengdu	1,190	Hangzhou	1,200.1	Qingdao	44.63	Ningbo	9,491.5
Wuhan	1,086	Qingdao	1,149.2	Amoy	44.37	Hangzhou	9,085.0
Rank	3		4		3		5

Note: Gross industrial product was compiled only on products of enterprises of "larger than a definite scale (all of the state-owned enterprises and the non-state-owned)

Source: Statistical Bureau of Hangzhou City

Table II-8 Situation of Hangzhou City in 15 major cities having the administrative organizations of Vice-Province rank (in 1999)

Table II-9 Major indices for the gross domestic product of Hangzhou City

	Unit	1978	1980	1985	1990	1995	1998	1999
Gross domestic product	100 million Yuan	28 40	40 65	90 49	189 62	762 01	1,134 89	1,225 28
Primary industry		6 34	8 15	15 97	30 94	69 25	96 05	97 58
Secondary industry		16 93	25 36	52 08	96 17	410 00	587 96	630 75
Tertiary industry		5 13	7 14	22 44	62 51	282 76	450 87	496 95
Index for gross domestic product	%	100 00	135 65	268 85	372 37	1,064 82	1,513 30	1,667 66

Source Hangzhou Yearbook

Table II-10 Number industrial enterprises and industrial gross product in Hangzhou City classified by type of enterprise

	Number of enterprises			Gross industrial product (10 thousand yuan)		
	1980	1999	Difference (1980-1999)	1980	1999	Difference (1980-1999)
Total	3,519	2,474	-1,045	634,530	20,284,636	19,650,106
State-owned	691	396	-295	451,349	316,402	-134,947
Aggregated	2,828	689	-2,139	166,561	2,543,981	2,377,420
Others		1,389	1,389		6,292,213	6,292,213
Township	1,857	1,313	-544	36,215	4,785,861	4,749,646

Table II-11 Number of Industrial enterprises in 1999

Urban district	Xiaoshan	Tonglu	Fuyang	Linan	Yuhang	Jiande	Chunan
3,866	9 266	5,420	6,329	17,442	14,854	4,765	3,603
959	544	126	240	129	347	80	49
255	23	9	32	18	32	16	11
284	108	48	32	58	136	18	5
23	48	29	79	6	12	16	8
13	2	1	1	-	3	1	-
156	256	20	60	38	100	22	21
227	106	19	35	9	64	7	4
1	1	-	1	-	-	-	-
68	15	3	2	5	10	4	-
88	25	5	18	14	24	11	9
803	504	118	220	110	313	65	40

*State-owned enterprises and non-state-owned enterprises earning annual income of over 5 million Yuan

Sanzi enterprise: Joint, cooperative and solely owned venture

Source: Yearbook of Hangzhou

Table II-12 Foreign capital invested to enterprises in Hangzhou City at the end of 1999 (unit in 10 thousand US dollars)

	Number of cases	Total amount of investment	Foreign capital	Average amount of investment
Total	3,866 0	1,058,683 0	615 621 0	273 8
Hongkong	1 786 0	506,098 0	266,884 0	283 4
Taiwan	725 0	87,430 0	55,823 0	120 6
USA	461 0	113,000 0	64,715 0	245 1
Japan	238 0	90,449 0	61,888 0	380 0
Singapore	92 0	46,857 0	27,358 0	509 3
Others	564 0	214,849 0	138,953 0	380 9

Source: Statistical Yearbook of Hangzhou City

(2) Industrial Policy of Hangzhou (Main Text Chapter 3)

- 1) As to the environment surrounding of Hangzhou industries, ①Conversion policy from Socialism Planned Economy to the Market Economy which has been promoted by Chinese Government and ②there is the basis of Chinese Government policy which is intending to utilize international globalization wave aggressively.
- 2) The principle of industrial policy of Hangzhou shall be, by corresponding to the policy of above central government, basically entrust to the principle of market economy and encouraging in “Technical force as pulling power of economic reform, bring up competitive enterprises” and “Promotion of traditional industries” thus planning to rise up industrial structure in the following 5 areas
- a) Reform of Enterprises Structure
- Under the policy of scale enlarging and grouping of enterprises, it has been encouraging to attract and to expand the enterprises at low cost thus the adjustment of structure have been promoted As the result, ①the industries of “Above average scale” in all city during first half of the year 2000 have become pulling power of economic growth, and ②Especially, the growth of 108 important enterprises is remarkable and Orient Communications, Wahaha, Waxiang Corp., Hangzhou Steel Corp , Hangzhou Tobacco Factory, Motorola Mobile, Huali Corp etc. have become nationwide prominent enterprises
- b) Reform of Industrial Structure
- ① Encourage the structure improvement for traditional industries as machinery, electronics, foodstuff and spinning. ②It has been endeavored to bring up new industries (communication industries, gene, medicine industries introduced bio technique etc.). As the result, such high-tech industries as digital technique, designing and manufacturing of IC, moving communications, silicon materials, optical recording materials, application soft, biomedicine etc. are glowing up.
- c) Technical Reorganization Assistance
- Encouraged to introduce advanced facilities of CAD, CIMS etc for the filed of machineries, electronics, foodstuffs, spinning, chemical industries, medicines and The facilities level of a part of industries attained international standard.
- d) Development of Rural Economy
- It is forming industries of distinctive character in respective field at each county (city). For instance, ①In the city of Xiaoshan, there are such type of industries as automobile arts, chemical fiber, fine chemical, hardware & tools etc. ②In the city of Yuhang, foodstuffs, clothes, ③In the city of Fuyang, in addition to communication cables, paper, chemical industries of the city of Jiande, there are large scale development areas as Hangzhou Economic Technique Development Area, Hangzhou High-tech Industries Development Area, City of Xiaoshan Technical Development Area etc.
- e) Form of Ownership
- Under the state policy to sort out state owned enterprises within 3 years, overall revision of the property right and employment system have been enforced and in future, it is the policy to put the industries of private enterprises and joint stock companies as main force

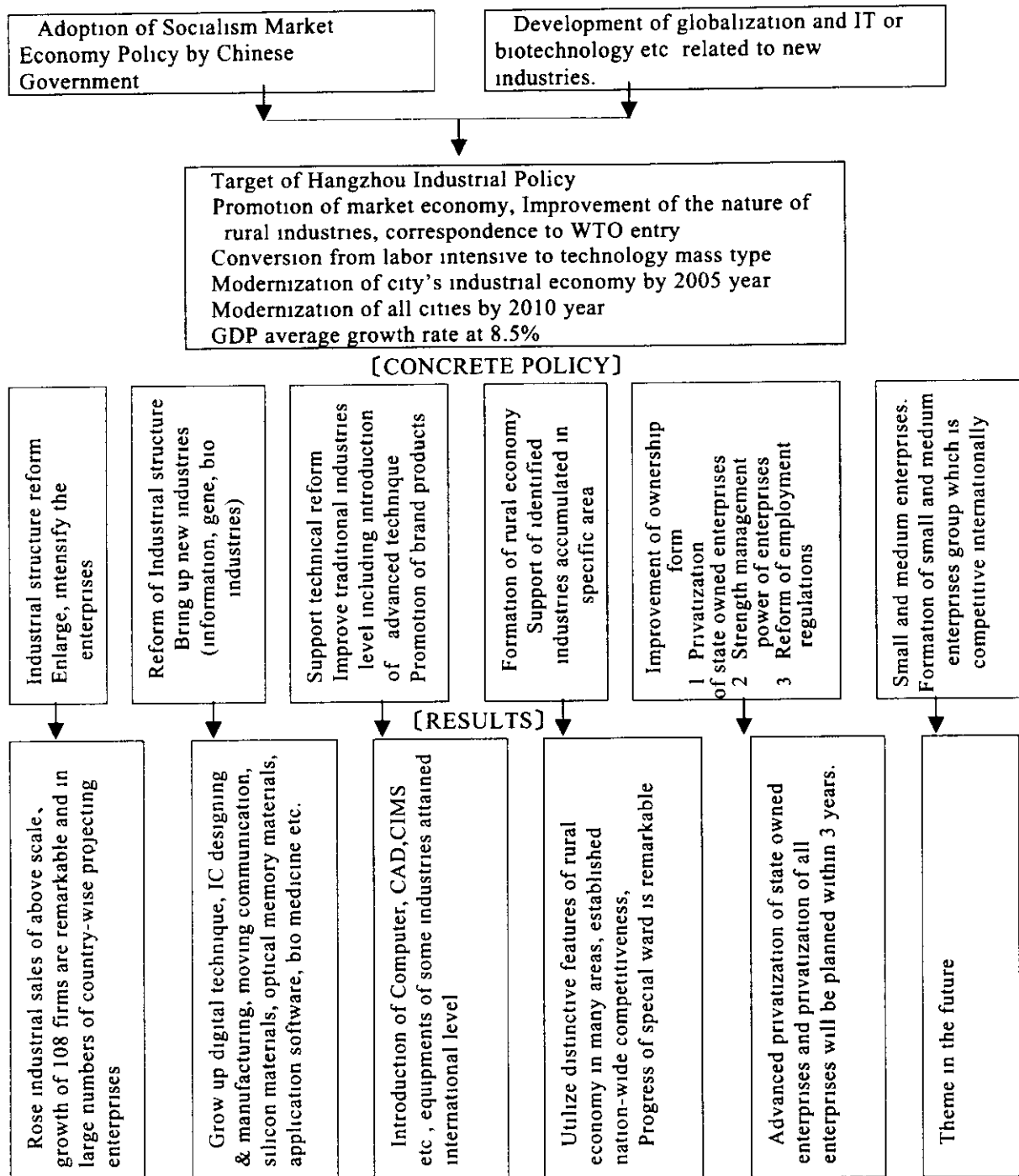


Figure II-3 Development of Hangzhou Industrial Policy

(3) Present State of Small and Medium Enterprises in Hangzhou City
(Chapter 2 of main text)

- 1) Small and medium enterprises play an important role in the city economy. Regretfully, we could not obtain numerical data showing the whole of actual condition of small and medium enterprises in Hangzhou City this time. However, in enterprises whose annual sales income exceeds 5 million Yuan, a percentage occupied by small and medium enterprise is 96% (99% in all factories) as shown in Table below. Further, they occupy 64% of total amount of production, 73% of total employment and 46% of profit tax in Hangzhou City. Now, small and medium enterprises occupy a significant position in city economy. Moreover, in aspects of export and introduction of foreign capital they are active and their role in activation of industry is also important.

Table II-13 Industrial statistics of Hangzhou City

Item		Whole city
Total of all industries		65,545
Enterprise earning annual income of over 5 million Yuan		2,474
Type of enterprise	State-owned	396
	Aggregated	689
	Private	221
	Cooperated	21
	Joint-stock	673
	Sanzi	471
	Others	3
Scale of	Large	107
	Medium	194
	Small	2,173

Source Statistical Yearbook of Hangzhou City 2000

- 2) Type of possession is changing drastically. City authorities are promoting enthusiastically conversion of state-owned enterprises to private as part of conversion to market economy. many of 52 enterprises that we have visited this time have private enterprises that have converted from state-owned. At present, privatization of enterprises is going on.
- 3) Situation of management seen from viewpoint of types of possession: Growth rate of amount of production by enterprises earning annual sale income of more than 5 million

Yuan is 13.6%, while that of state-owned is 3.2% and that of aggregated and “Sanzi” enterprises is 18.2% and growth rates of non-state-owned ones are higher in comparison with that of state-owned. As the enterprises that submitted the financial statements was only 12 in number out of 52 that we visited this time, it is appropriate to discuss the small and medium enterprises in Hangzhou. But, speaking as a reference, many of state-owned enterprises and enterprises that have converted from state-owned are in a tight financial situation showing loss or having heavy debt. One of reasons for this is insufficient establishment of right of management (corporate governance). While, some of the private enterprises is showing rapid growth.

- 4) Problems with which the enterprises are face: In the examination of this time, questionnaire survey and simplified diagnosis were carried out to 52 enterprises chosen by city authorities from four industries such as machinery and electronics, food, spinning, and light industry and a “diagnosis chart” was submitted to each of them. Further, 10 model enterprises were chosen out of the enterprises that had submitted financial statements and diagnosis and guidance were performed to them. On the basis of these examinations, we describe here problems that the small and medium enterprises are faced with. However, as the number of enterprises subjected to examination is limited and most of them are of medium scale, it should be noted that what is described here is only for reference

Result of the questionnaire survey is shown below. Problems with which the small and medium enterprises in Hangzhou City are manpower, raising of funds, market information, development of new product and developing of abilities. Their demands to city administration are about supply of funds, obtaining of information and rearing of manpower, however, often it is not known that what kinds of support can be provided.

- a) Know-how about the management: Know-how about the management including that about management control, development of new products, management of sales and production control are different largely under the market economy from those of the planned economy. Some of the enterprises visited by us have knowledge about management and so but they often encounter difficulties when they apply it. In some state-owned and privatized enterprises, the right of management is not established. For them, the first thing they have to do is establishment of the right of management
- b) Difficulty in raising funds: Generally speaking, shortage of funds is a big problem, though state-owned enterprises are seemingly easier to raise long-term funds. Shortage of funds for operation is a problem for the time being, however, preparation of long-term funds to improve facilities has become a big problem to

keep up with international competition. In such hard situation, many of them are possibly forced to depend on short-term loan.

- c) Shortage of information: According to visiting the survey this time, only a limited number of enterprises utilize personal computer and internet for business though many enterprises have interested in them.
- d) Shortage of manpower. Most of problems of from a) to c) above are caused by shortage of funds and manpower after all. For small and medium enterprise, rearing and training of manpower is hard to perform though some of them are performed as OJT While, leader system is not sufficient and support from outside is not enough. Diagnosis and guidance of this time are supposed to be useful though in limited range

5) Problems of small and medium enterprises in Hangzhou City (questionnaire survey)

This questionnaire survey was performed to 52 enterprises and plural answers were requested To a question about “problems they are now faced with, top five answers are ① manpower, ② raising of funds, ③ market information, ④ development of new product, and ⑤ manpower development.

- a) Manpower: ① and ⑤ above are items concerned in manpower development. These answers indicate that each enterprise feels keenly the necessity of manpower development, but that the development within each enterprise is beyond the boundaries of its ability While, people consider that the manpower development entrusted to outside is “apart from the education and training required by the enterprise and inferior in cost performance,” and is caught in a dilemma (Study and training for the management and technical stuffs are necessary and preparation of facilities for training of technical stuffs is also required)
- b) Raising of funds: as external factors, it is pointed out problems such as “liability guarantee system is not sufficiently established,” “liability guarantee system is not sufficiently recognized though it exists,” “procedure of application for loan to a commercial bank is complicated,” “period of loan is short” and so forth. To the contrary, as an internal factor of each enterprise, “shortage of mortgage” is pointed out Resultantly, situation of “necessary amount of loan can not be borrowed” is occurring
- c) Market information According to visiting survey, most of market information is obtained from human network such as friends, acquaintances, relatives, in-house salespersons etc. Gathering of information through trade fairs, communication network etc are not performed sufficiently because of “shortage of manpower having marketing ability,” “shortage of manpower having ability to utilize communication network,” “shortage of manpower having linguistic talent,” “shortage of funds for it” and so on. It is the real state of affairs that they feel

necessity of it, but at the same time they feel shortage of ability to gather market information.

- d) Development of new products · According to answers, many of the enterprises perform the development of new products by themselves (about 55% of all answers). To the contrary, 28% of the enterprises have their own developmental design department and 23% have their own research and development department. These percentages are higher than that (17%) of enterprises that answered “production is performed in accordance with the figure of customers.” This shows that they feel it necessary to differentiate their products from those of other enterprises in order to correspond to intensified market competition and that they are struggling for realizing this. However, as describe in 1) above, rearing of manpower for improvement of technology and developmental ability forms a bottleneck.
- e) Development of human abilities Development of human abilities in each enterprise is mentioned in 1). However, It is not possible for each enterprise to prepare all necessary talents for this purpose and accordingly, rearing of external leaders is required
- 6) Tasks for the future (seen through questionnaire survey)
 What kind of measures are the small and medium enterprises in Hangzhou City going to take for the future in the face of the affiliation with WTO and globalization of the market? Or, how are they thinking about the problems that they have to solve? To grasp these points we asked some questions. Analysis was made about the six answers in higher rank. From the top they are: ① how to deal with WTO (8%), ② development of abilities (8%), ③ rearing of manpower (a little under 8%), ④ How to deal with ISO 9000 (a little under 8%), ⑤ arrangement of sales network (6%) and ⑥ development of new products (6%)
- a) How to deal with WTO: Each enterprise is pressed to convert its constitution largely by affiliation of China with WTO that are supposed to realize in autumn 2001. Supports by the administration have a large influence on their post-affiliation management. (Corporate governance also should be internationalized.)
- b) Development of abilities. Development of abilities is not define to a field of production technology but also it include many kinds of development of abilities for production control, management control, marketing, personal matters etc. Development of abilities is a key to leaps and bounds of small and medium enterprises. However, as they cannot afford to employ all of talented persons, utilization of external specialists (leaders etc) is requested.
- c) Rearing of manpower It is understood that this has the same meaning as 2) above.

- d) How to deal with ISO 9000: Aiming to be qualified to ISO 9000 means differentiation from other enterprises in aspect of quality. About a half of 52 enterprises visited by us have been qualified to this ISO standard at the end of 2000¹. It will be necessary to promote the acquisition of this qualification as the first step to the world market after this also.
- e) Arrangement of sales network: Arrangement of sales network is marketing in a narrow sense. It is an important factor of activities of the enterprise and it serves for “building-up of ideas for development of new products,” “preparation of production plans,” “preparation of a strategy to improve efficiency of logistics,” “preparation of a strategy for enlargement of market” and so forth.
- f) Development of new products: Importance of development of new products will increase in the globalized world market. Rearing of manpower and support by the administration will be a key to improve ability to develop new products.

¹ Though acquisition of ISO 2000 has been promoted under the leadership of the state in China differently from Japan, this high rate of acquisition of 50% shows highness of consciousness of the small and medium enterprises to the quality of their products

**(4) Small and Medium Enterprises of Measures in Hangzhou
(Main text Chapter 3)**

Hangzhou city government is aggressively corresponding to establish market economy, globalization and application of new technology. Policies related to small and medium enterprises promotion are as follows:

1) Support for science technique field enterprises

① Preferential treatment against high-tech development area: For those high-tech enterprises located in 3 development areas shown in the following page, preferential measures for finance, taxation and other kinds has been adopted.

② Preferential treatment against science field enterprises of domestic capital: For science system type enterprises of domestic capital, preferential treatment related to income tax for enterprises, import duty, value-added tax shall be applied, and water, gas, electric capacity increasing charges, electricity supply and distribution charges and air defense charges shall be exempted.

③ Preferential treatment against foreign capital enterprises. When acknowledged as high-tech enterprises for production type enterprises established under foreign capital investment, preferential treatment for income tax, value-added tax, exemption of land using volume and preferential supply for water, electricity. Gas etc. shall be extended.

④ Preferential treatment against science engineers. In Hangzhou, so as to encourage widely to invite further numbers of science engineers who may engage in the activities of enterprises in Hangzhou, move-in promotion and activities support for science engineers have been extended.

2) Supporting policy by Department of Small and Medium Enterprises and the organization in control

In addition to small and medium enterprises support by the support of above science technique field enterprises, Hangzhou is planning wide range of small and medium enterprises promotion by setting up Department of Small and Medium Enterprises. Department of Small and medium Enterprises are planning small and medium enterprises promotion through those organizations under its control as ① Hangzhou Small and Medium Enterprises Service Center, ② Small and Medium Enterprises Technique Innovation Service Promotion Center, ③ Hangzhou New Technology Advice Center etc. Respective functions are shown in the next page. However, those organization have been set up just recently, hence, though a part of measures such as the establishment of Small and Medium Enterprises Network etc. are under

enforcement, most of them are expected to be prepared step by step from now for the preparation of contents to be enforced, required staff members, arrangement of budget etc.

3) Support Policy for township Enterprises

In Hangzhou, since the announcement of Township Enterprises Law, ① Through understanding of the aim of Law, ② Establishment of support policy, protection of legitimate right & profit, ③ Standardization of management deed have been promoted. Thus attained above 96% of ownership transfer percentage for agriculture gathering enterprises and could establish the construction of management mechanism matching to the requirement of market economy. As for the standardization of management deed, it has been endeavored mainly financial statistics and safety control of production site and improvement of the quality of products. The preferential treatment of Hangzhou, there are grant of loan, tax exemption, subsidiary for the development of new products etc.

[I. Support for Science Technology System Enterprises]

<p>1. Support Policy for High-tech Development Area Hangzhou State Gaoxin Technical Industry Development Area Hangzhou Economic Technology Development Area Xiaoshan Economic Development Area</p>	<p>2. Preferential treatment for Scientific domestic capital enterprises</p>	<p>3. Preferential treatment for foreign capital enterprises</p>	<p>4. Preferential treatment for science engineers</p>
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[II. Supporting Policy of Department of Small and Medium Enterprises Control]

<p>Small and Medium Enterprises Service Center (1) Direct support of Enterprises in Hangzhou State Gaoxin Technical Industry Development Area Capital investment for Incubator Consult with establishment of venture investment company and enlarge support function Release to open stock exchange for venture, recommendation of candidate enterprises (2) Medium Support Business 1) Small and Medium Enterprises Credit Mortgage Center 2) Acquiring 25% share of Property Right Transaction Center, Enterprises Reorganization, Property Right Transaction, Mediation shares transfer service 3) Enterprises consultant, Net cover by establishing Small and Medium Enterprises Association 4) Constructing Technology Data Bank and prepare technique, market and technical needs 5) Establishment of small and medium enterprises information network 6) Establishing manager training base and perform specialty training by cooperation of universities and large enterprises</p>	<p>2 Technology Innovation Promotion Center (1) Management Office Control of administration business management and small and medium enterprises network (2) Finance Department. Finance & accounting management, Investment fund operation or preparation of fund (3) Consulting Department Information control and provide consulting service. (4) Liaison Department. Exterior Cooperation System management, Talent dispatching control (5) Research & Development Department Collection of theme for Scientific Technology transfer, Investment and enterprises, Introduction to research organization</p>	<p>3. Hangzhou New Technology Advice Station (1) Technology spread activities (taking handling charges) (2) Agent sales of application technology (Example, collection of patent right) (3) Agent sales of the products.</p>
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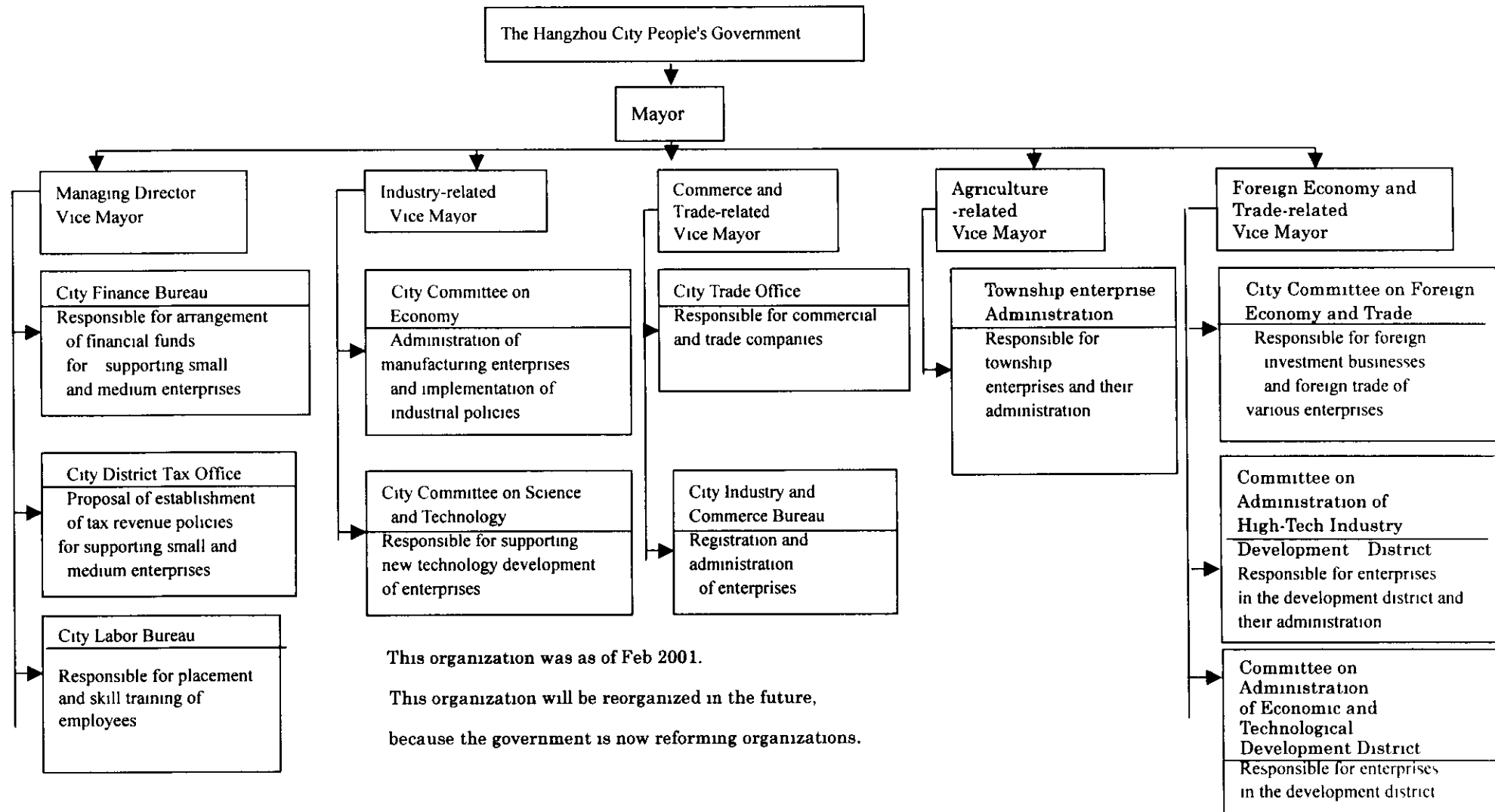
[III. Support for Township Enterprises]

Figure II-4 Small and Medium Enterprises of Hangzhou

(5) Organization of Hangzhou (Main text Chapter 3)

The present organization chart o Hangzhou is as follows. In case of Hangzhou administration related to small and medium enterprises, it has been handled that township enterprises by Agriculture Economic Committee, high-tech industries, technical promotion by Science Technology Committee, high-tech industrial development area among high-tech related by Science Technology Committee and Hangzhou Economic Technology Development Area by Hangzhou Economic Technique Development Area Control Committee. It is under examination to prepare the organization so that the support shall be extended effectively and efficiently for small and medium enterprises.

Figure II-5 Hangzhou People Government Organization



**(6) Small and Medium Enterprises Organization of Hangzhou
(Main text Chapter 3)**

Organization of Economic Committee in the organization of Hangzhou government is as under and, though Department of Small and Medium Enterprises has been established, other organizations are separated the kind of business or kind of field and almost all organizations are holding relation with bringing up small and medium enterprises. Accordingly, for the purpose of executing effective small and medium enterprises promotion, under the classified concrete measures on the basis of common promotion plan of small and medium enterprises, those organizations are required to make use of function appropriately for respective jurisdiction. It might be the duty for the head of economic committee to organize these functions and the establishment of concrete measures etc. shall be presumed as necessary to be charged by Department of Small and Medium Enterprises.

There is Federation of Industry and Commerce as other related organization and about one fourth of enterprises in Hangzhou are the member. There synthesis service department, membership department, economic service department, investigation and inquiry department (consulting), advertisement organization department and holding 33 full-time staff members. There are similar organization in the area, city and county and working in closer cooperation with 62 Chamber of Commerce and Industries in 33 countries of the world.

Figure II-6 Organization Chart of Hangzhou Economic Committee

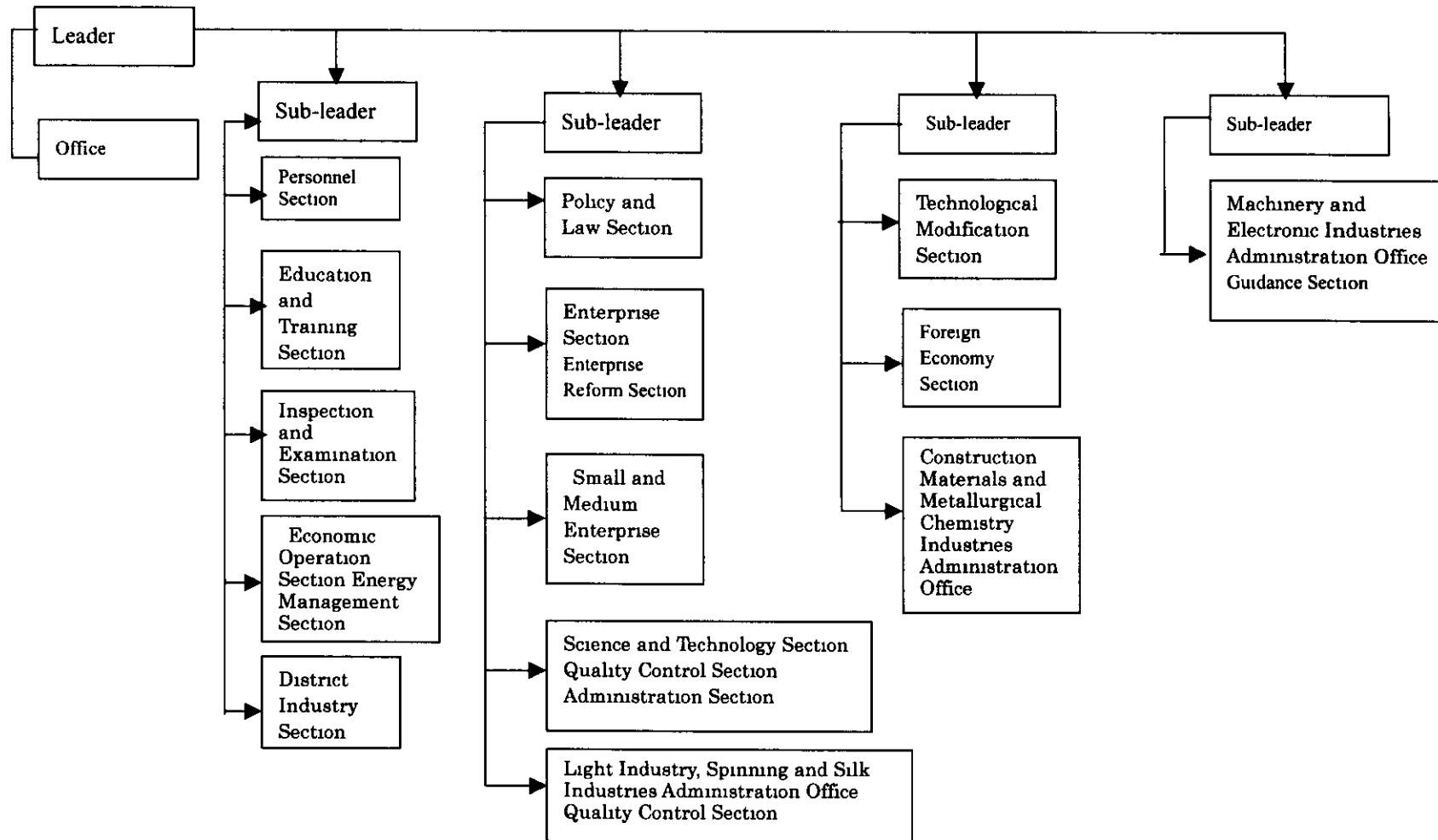


Figure II-7 Organization of Hangzhou Small and Medium Enterprises Service Center

