Walk the Talk

China takes further steps to support private enterprises By Zhang Shasha

Yan Hongzhi was worried about money. His company, Linkage Potato Co. Ltd., had plans to expand production, and its demand for potatoes had recently increased from 70,000 to 120,000 tons. To purchase the crop, the supplier of potato foods, based in Chifeng, a city in north China's Inner Mongolia Autonomous Region, had to raise 200 million yuan ($29 million)—but the company was short 20 million yuan ($2.9 million).

The shortage of money did not concern Yan for long. On Nov. 6, 2018, only five working days after he applied for a loan from the Agricultural Development Bank of China (ADB), his company received a loan of 19 million yuan ($2.75 million), with an interest rate of 4.35 percent.

The ADB is China's only rural policy lender providing financial services to agriculture and the rural economy. In Inner Mongolia, most land is elevated on a 1,200-meter-high plateau offering a cooler climate and expansive terrain, and potatoes and grain are the main agricultural products. Private companies are the major players in this industry, and to help them expand their purchases of agricultural products, the ADB has issued loans to private companies with financing difficulties.

The interest rate on these ADB loans is 50 percent lower than that of other financing methods, according to Li Guoliang, who runs a company in Tongliao, an ancient city in Inner Mongolia, that purchases sorghum, green beans and buckwheat.

At a symposium on Nov. 1, President Xi Jinping reiterated the significance of the private sector in China's economic development, and demanded concrete approaches to address the difficulties it encounters

Workers process dried fruit at a privately owned company in Yiyuan County, in east China's Shandong Province, on November 4, 2018.

in marketing, financing and restructuring. Since then, a host of new policies and measures have been announced, indicating that support for private enterprises is not just a slogan, and that it is being backed by substantial action.

Collective response

On Nov. 6, the People's Bank of China (PBC), the country's central bank, unveiled an array of policies regarding bond issuance, bank loans and equity financing.

"There is a lot of water in the monetary pool, but we need to channel the funds to cash-starved private businesses," says PBC Governor Yi Gang. He disclosed that in a recent bond issuance pilot, the first batch of three companies raised a total of 1.9 billion yuan ($275.4 million), with their bonds oversubscribed, while another 30 private enterprises were on their way to preparing for the issuance.

Commercial banks, such as China Construction Bank (CCB) and China Minsheng Bank, also have taken measures to facilitate healthy development of private companies.

CCB will optimize the incentive mechanism on credit assessment to prioritize financial support for private businesses in order to boost the development of China's real economy, says CCB Chairman Tian Guoli.

Hong Qi, Chairman of Minsheng Bank, says the bank has prepared a credit quota of 30 billion yuan ($4.35 billion) for the fourth quarter of 2018 to specifically support loans and financing activities for strategic private enterprises.

On Nov. 10, Ning Jizhe, deputy head of the National Development and Reform Commission, said that China will launch a series of projects in the transport, energy, ecology and environmental protection sectors in line with national industrial policies, with a clear investment return mechanism for private businesses.

In the first 10 months of 2018, private investment in China increased 8.8 percent compared to the same period in 2017, accounting for about 60 percent of the country's total fixed asset investment (FAI); the overall year-on-year growth rate of FAI in the country was 5.7 percent.

Since 2013, China has piloted mixed ownership reforms in the electricity, oil, gas, railway, aviation, telecommunications and defense sectors, with the aim of diversifying the equity structure of involved state-owned enterprises. Ning said the pilot will expand to more sectors in order to make better use of private capital.

In addition, the State Administration of Taxation (SAT) has issued a guideline with 26 detailed measures to facilitate the development of private businesses, including substantial tax cuts, particularly value-added taxes and tax exemptions for micro and small firms and technology startups, and the reduction of nominal rates for social security contributions.

Measures will also be taken to address the difficulty and high costs of financing for private firms and to simplify tax payment procedures. China's taxation authority has always treated private enterprises equally, according to the SAT.

"Private enterprises have encountered some difficulties and obstacles, such as fewer financing channels, higher financing costs and increasing labor and land costs," Sang Baichuan, Dean of the Institute of International Economy at the University of International Business and Economics, told *Beijing Review*. "The tightening of environmental protection standards and uncertainties in international markets also pose challenges for them. The new measures are conducive to building the confidence of private businesses, and their implementation will help address these difficulties."

Top-down action

While central government departments are rolling out supporting policies for private enterprises, local authorities in many regions also have made efforts to support the private sector.

"Localities should adopt more targeted measures in accordance with their own conditions," Sang said, adding that in regions that have a relatively high standard of industrialization, such as the Pearl and Yangtze River deltas, the private sector is stronger. The major tasks in these areas lie in industrial transformation and upgrading, making technological innovation extremely important, he explained.

However, as the cost of labor increases and the market environment fluctuates, the risk for innovation increases. Authorities in such regions should focus on stabilizing the market for the development of the private economy, and offer support for technological innovation, such as helping to reduce financing risks, Sang said.

Moreover, since there is a gap in the level of development between coastal and inland regions, a dual regional structure exists. As a result, many private firms in coastal provinces seek to transfer operations to other regions. Sang said authorities should assist them in these moves to help lower their relocation costs.

Chen Jining, Mayor of Beijing, revealed in November 2018 that a fund of 35 billion yuan ($5.07 billion) has been set up to help ease liquidity risks for publicly traded firms that have pledged shares as collateral for

A wheat farm run by a private company in north China's Inner Mongolia Autonomous Region.

loans, adding that authorities will support private firms in issuing bonds.

"The Beijing Municipal Government will remove investment hurdles and allow private capital in the financing of over 60 projects, with a total investment of 100 billion yuan [$14.4 billion]," Chen said.

On Dec. 10, Zhejiang Province, a leading private business hub, pledged that its provincial, municipal and county-level governments will spend 120 billion yuan ($17.4 billion) in the next five years to boost hi-tech and internet companies, as well as medical research and development, according to Gao Yingzhong, head of the provincial Science and Technology Department.

Targeted measures

In many old industrial bases, such as northeast China's Heilongjiang Province, where there are a large proportion of state-owned enterprises, and the private sector is relatively weak. The main task for Heilongjiang's local government is to encourage the development of private firms by creating a fair business environment for them to participate in market competition.

To stimulate the private sector in Heilongjiang, Zhang Qingwei, Secretary of the Heilongjiang Provincial Committee of the Communist Party of China, proposed four steps at a recent symposium: stabilize the market and develop a cluster of large private enterprises with distinctive core businesses and core competitiveness; cultivate micro and small companies with supporting policies; revitalize unprofitable firms; and create new enterprises with new business models to boost the economy, expand consumption and drive employment.

"Private enterprises have flexible operating mechanisms, are highly sensitive to market trends and pursue the maximum possible returns for their investment. They are bound to capture market opportunities, and are good at understanding social needs and choosing investment and operation directions accordingly," Sang said.

He added that effective cooperation with state-owned enterprises gives private companies access to more financing channels, lower business risks and costs and more resources. State-owned enterprises can also benefit, as private firms are more market-oriented. "Thus, to combine their advantages, it is possible to achieve a win-win situation," Sang said. ■

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