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MASSEY UNIVERSITY

***Guanxi* and government policy: A Chinese SME
perspective**

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Lei Ye

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Abstract

Deng Xiaoping's economic reform in 1978 was seen as a new beginning for the Chinese SME sector as, previously, no private businesses were allowed. In the past three decades, the government has played a vital part in fostering the development of Chinese SMEs in terms of enacting policies and providing support. Currently, no empirical research has been carried out to investigate the effectiveness of government policies from the point of view of the SME owners. The basic research question addressed in this thesis is: How do Chinese SME owners/managers perceive government policies in mainland China?

First-hand information was collected in 2009 through face-to-face interviews with 210 SME owner/managers of businesses located in three regions with different economic development conditions and stages. All the participants were reached through personal contact, either by business owners' friends or local government officials, which ensured the research's response rate was 100%.

The findings showed that Chinese SME owners do not perceive any role for their participation in political decisions and processes, but they are affected both positively and negatively by the policies and the way they are administered at the regional level. Major problems that concerned the owners were the effectiveness of the policies as many do not translate well to the real conditions of SMEs and the unlawful practices of local government officials. However, one element of the Chinese culture, *Guanxi*, is very important for Chinese SMEs. Good relationships with local government officials can help SMEs easily get resources and information.

The study also shows that the government provides more services and support to SMEs. However, the size of the business and the industry that SMEs are in control whether SMEs can enjoy the services. Only larger businesses and those in the industries encouraged by the government can benefit from government support. The location of SMEs is also associated with the attitudes that SME owners have towards the effectiveness of government services. Those in developed areas were making more requests to the government for better and more effective support.

Although the government policies, especially those concerned with the SME sector, are having a great impact on Chinese SMEs, the growth of SMEs largely relies on SME owners. The government services and support still lag behind SMEs' needs, and the services are seen by SME owners as inefficiently administered. For SMEs to continue to develop as a business sector that contributes more to China's growth, greater contact between academics, the SME sector, and the government is necessary so that policies and support can be more closely aligned to the needs of SMEs. The measures in tackling the unlawful practices of the local government officials are also important.

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Abbreviations

Abbreviation	Full term
ACFIC	All China Federation of Industry and Commerce
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
CAS	Chinese Academy of Sciences
CCP	Chinese Communist Party
CCPCC	Chinese Communist Party Central Committee
CCTVs	Closed-circuit televisions
CICASME	China International Cooperation Association of SMEs
CISMEF	China International SME Fair
EU	European Union
FDI	Foreign direct investment
FTA	Free trade agreement
GDP	Gross domestic product
GNP	Gross national product
HM	Her Majesty
IT	Information and technology
MIIT	Ministry of Industry and Information Technology
NDRC	National Development and Reform Commission
NPC	National People's Congress
OECD	Organisation for Economic Co-operation and Development
PBC	People's Bank of China
PEST	Political, economic, social, and technological environments
PRC	People's Republic of China
R&D	Research and development
ROAMEF	Rationale, objectives, appraisal, monitoring, evaluation, and feedback
SAIC	State Administration for Industry and Commerce
SASAC	State-owned Assets Supervision and Administration Commission
SAT	State Administration of Taxation
SEZ	Special economic zone
SME	Small and medium-sized enterprises
SOE	State-owned enterprises
S & T	Science and technology
TVE	Township and village enterprise

UNESCO	United Nations Educational, Scientific, and Cultural Organization
UK	United Kingdom
USA	United States of America
VAT	Value-added tax
WTO	World Trade Organization
