

## Chapter 5

# Historical Development of Chinese SMEs

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### **ABSTRACT**

*The importance of the SME is well established in the literature. These account for the majority of economic contribution in many economies. In the case of emerging markets, SMEs make significant contributions to the local income generation, employment support, and innovation development. The aim of this chapter is to provide an overview of how the world's largest emerging economy—China—helps promote its SMEs. This chapter provides a brief history of Chinese SMEs throughout the Great Economic Reform that started in 1978. Next, the SMEs' achievements and current constraints are outlined. Last, this chapter discusses how the SMEs in China upgrade through innovation and branding to embark on future pathways. Through this timeline approach, the experience of Chinese SMEs development will provide some insights for other emerging regions.*

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## **INTRODUCTION**

Small- and medium-sized enterprises (SMEs) have been at the forefront of the economic development in most countries, and their importance to the economic development is well documented in the literature. SMEs serve as the engine of economic growth to generate innovation and employment, and provide social stability (Pistrui, Huang, Oksoy, Jing & Welsch, 2001). They account for the majority of economic contribution in the developed markets; i.e. over 99% of businesses in the US, the UK and Europe are SMEs (OECD, 2016). In emerging markets, SMEs contribute significantly to the regional and national economy development; for instance, over 95% of total business units in India are in the small-scale sector (Singh, Garg, & Deshmukh, 2009), and the United Arab Emirates (UAE) SMEs account for the same percentage<sup>1</sup>. In the case of the world's largest emerging market—China, SMEs accounts for more than 98% of the total businesses in China, over 65% of gross industrial output value, and more than 77% of employment (Singh et al., 2009). The majority of SMEs in China are privately owned enterprises, and, they are the sources of generating innovation, employment and wealth, and also advance the economic growth of the country (Malik, 1997; Poutziouris, Wang and Chan, 2002).

This chapter discusses the development of Chinese SMEs where the UAE SMEs can use as benchmark for development process. It first sets out a brief background of Chinese SMEs by applying the great Open Door Policy as the main timeline to divide the contemporary history of Chinese SMEs. This chapter then turns its attention to the current achievements of Chinese SMEs as well as the challenges faced by Chinese SMEs. The discussion on the future direction for SMEs is outlined at the end of this chapter.

## **HISTORY OF ENTERPRISE DEVELOPMENT IN CHINA**

This section introduces the contemporary history of Chinese SMEs' development to understand how the modern Chinese enterprises formed and developed. The discussion follows the important historical cornerstone of the launch of China's Open Door Policy in 1978 led by the great economic

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